

METRO TRANSIT SYSTEM

An Enterprise Fund of the
City of Madison, Wisconsin

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

METRO TRANSIT SYSTEM

An Enterprise Fund of the City of Madison, Wisconsin

TABLE OF CONTENTS

As of and for the Years Ended December 31, 2011 and 2010

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 16
Financial Statements	
Statements of Net Assets	17 – 18
Statements of Revenues, Expenses and Changes in Net Assets	19
Statements of Cash Flows	20 – 21
Notes to Financial Statements	22 – 41
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	42 – 43
Supplemental Information	
Operating Revenues and Expenses	44
Detailed Schedule of Revenues and Expenses – Regulatory Basis	45
Reconciliation of Revenues and Expenses to WisDOT and Federal Recognized Revenues and Expenses	46
Computation of the Deficit Distribution Among the Subsidy Grantors	47

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Metro Transit System, an enterprise fund of the City of Madison, Wisconsin as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. 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, 2011 and 2010, 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.

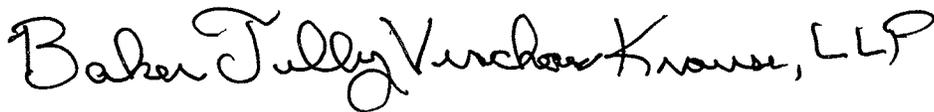
In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the overall City of Madison's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants, including those systems applicable to the Metro Transit System. 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* and should be read in conjunction with this report in considering the results of our audits.

To the Honorable Mayor and Common Council
Metro Transit System

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, economical, 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 of America 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.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. 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 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Baker Tully Vuchow Kravitz, LLP". The signature is written in a cursive, flowing style.

Madison, Wisconsin
June 15, 2012

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, 2011 and 2010.

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 237,433 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 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, MATC, Edgewood College, St. Mary's and Meriter Hospitals and the City of Madison.

Annual Overview

In 2011, Metro's bus ridership was the highest on record! The year ended with 14,923,970 rides, up 9.5% from 13,623,461 in 2010. The previous highest ridership in Metro's history was 13,953,237 in 1979. Metro's ridership outpaced bus ridership nationwide for systems Metro's size, which collectively increased by 4.8%.

This performance is also noteworthy given the 33% increase in cash fares in 2009, and the trendline now shows ridership is back on the growth trend started around the year 2000. Factors contributing to this growth include the nationwide increase in young people aged 19-34 riding transit significantly more and driving less, a sluggish economy where transit use can help families manage their home budgets, the availability of Google Transit and smart phone apps that provide real time bus information to make bus riding easier, and a new long term reality of higher fuel and oil costs. UW students and staff who ride Metro made up 48.8% of all rides, an increase over the 2010 level of 48.0%.

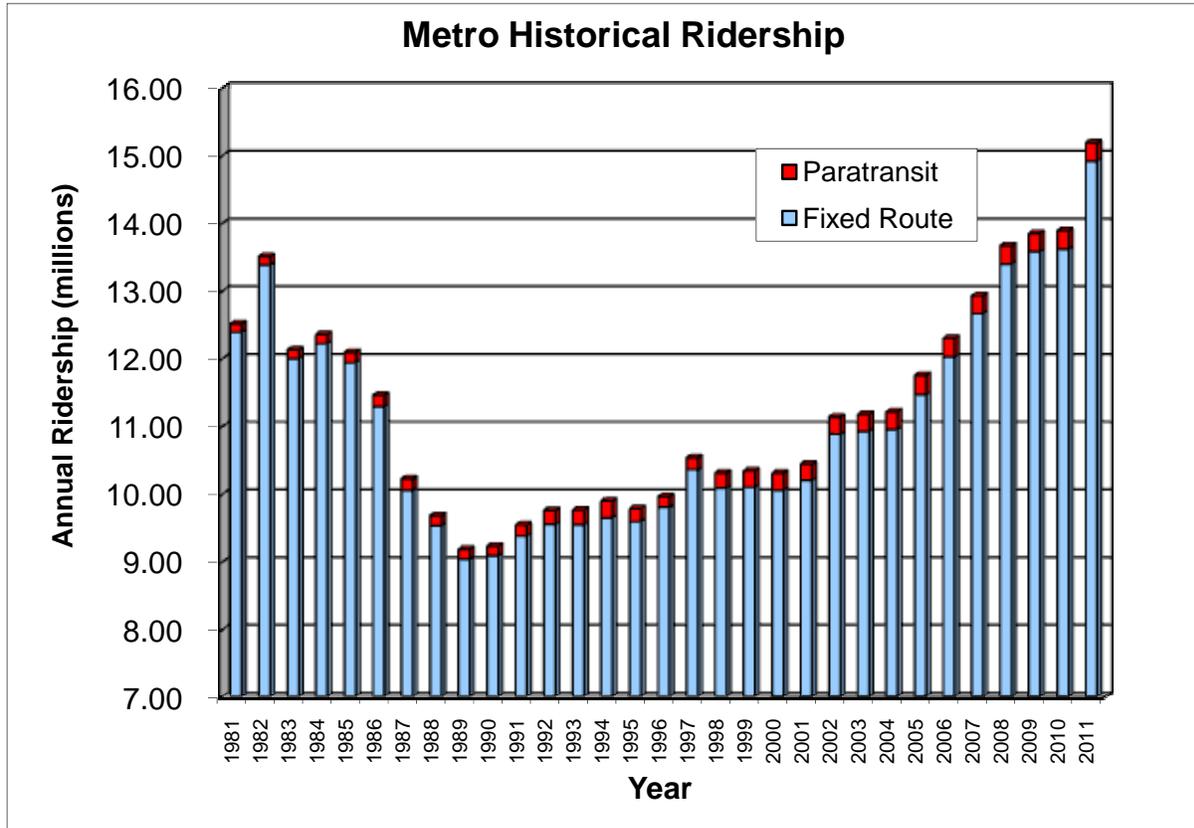
Related to the ridership increase, passenger fare revenues increased to a record level of \$11.69 million, a 10.1% increase over the 2010 level. The largest single category percentage increase was with the new commuter card program, where revenues increased from \$51,000 to \$188,000. This program is designed to encourage small companies, non-profits, and neighborhood associations to provide this transportation benefit to their employees and associates.

Another important accomplishment was the 28% improvement in passenger fuel usage (rides/gallon) resulting from the increased number of hybrid buses and cleaner diesel technology buses in Metro's fleet. Rides per gallon increased from 9.78 in 2007, the year Metro first introduced 5 hybrid buses into the fleet, to 12.49 in 2011, the first full year of 19 hybrid buses in Metro's fleet.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

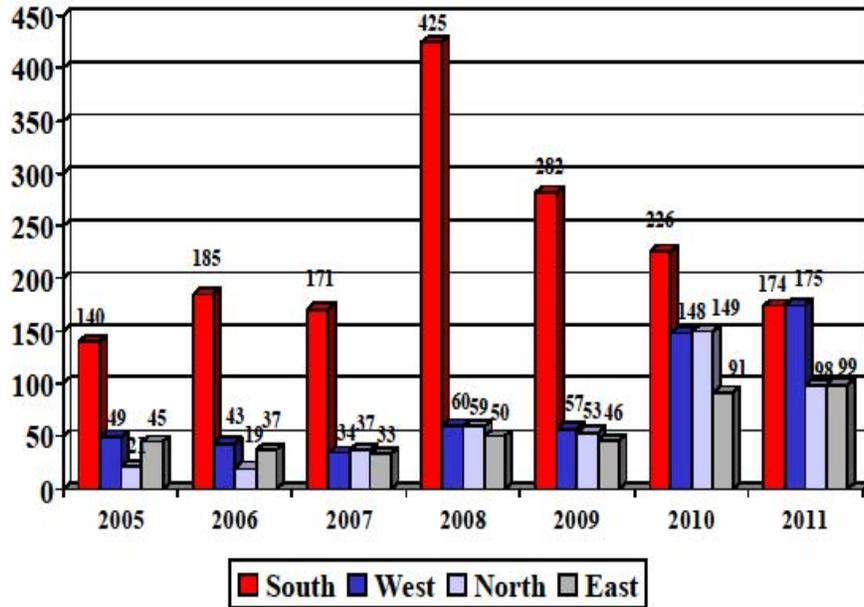
The investment in police resources at the South Transfer Point continued to have a substantive impact. After a high of 425 police calls in 2008, the 2010 figure of 174 represents a 59% decrease. Metro continues to work with the Madison police, the school district, and the Mayor's office to develop strategies to improve security, with two new initiatives involving police riding buses in southwest Madison to reduce security incidents and increased funding at the West Transfer Point for police officers to be present after school in warm weather.



METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Police Department Calls for Service Incident Analysis at Metro Transfer Points



2011 Financial Highlights

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

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit

Income Statement

For the Year Ended December 31, 2011

	All Modes		Fixed Route		Paratransit	
	Actual	Budget	Actual	Budget	Actual	Budget
Revenue						
Farebox	\$ 1,452,066	\$ 1,284,255	\$ 1,427,167	\$ 1,258,570	\$ 24,899	\$ 25,685
Passes & Tickets	\$ 4,621,438	\$ 4,768,194	\$ 4,333,866	\$ 4,479,201	\$ 287,572	\$ 288,993
Unlimited Ride Programs	\$ 5,958,955	\$ 5,637,943	\$ 5,927,031	\$ 5,606,467	\$ 31,924	\$ 31,476
Passenger Revenue	\$ 12,032,459	\$ 11,690,392	\$ 11,688,064	\$ 11,344,238	\$ 344,395	\$ 346,154
County Programs	\$ 3,490,999	\$ 3,576,600	\$ 19,280	\$ 19,280	\$ 3,471,719	\$ 3,557,320
Federal Operating Assistance	\$ 5,985,721	\$ 5,985,600	\$ 5,267,434	\$ 5,267,328	\$ 718,287	\$ 718,272
State Operating Assistance	\$ 18,021,300	\$ 18,021,300	\$ 15,858,744	\$ 15,858,744	\$ 2,162,556	\$ 2,162,556
Local Subsidies	\$ 2,925,583	\$ 3,255,942	\$ 2,574,513	\$ 2,865,229	\$ 351,070	\$ 390,713
Other Subsidies	\$ 17,593	\$ 17,000	\$ 17,593	\$ 17,000	\$ -	\$ -
Advertising	\$ 425,000	\$ 425,000	\$ 425,000	\$ 425,000	\$ -	\$ -
Miscellaneous	\$ 155,125	\$ 105,200	\$ 155,125	\$ 105,200	\$ -	\$ -
Total Revenue	\$ 43,053,780	\$ 43,077,034	\$ 36,005,753	\$ 35,902,019	\$ 7,048,027	\$ 7,175,015
Expenditures						
Salaries	\$ 24,877,630	\$ 24,853,908	\$ 22,887,420	\$ 22,865,595	\$ 1,990,210	\$ 1,988,313
Benefits	\$ 12,584,465	\$ 11,990,860	\$ 11,577,708	\$ 11,031,591	\$ 1,006,757	\$ 959,269
Utilities/Telephone	\$ 515,213	\$ 633,400	\$ 473,996	\$ 582,728	\$ 41,217	\$ 50,672
Repairs & Maint B&G	\$ 109,291	\$ 79,200	\$ 100,548	\$ 72,864	\$ 8,743	\$ 6,336
Repairs & Maint Equip	\$ 395,339	\$ 308,400	\$ 363,712	\$ 283,728	\$ 31,627	\$ 24,672
Rentals	\$ 174,986	\$ 163,600	\$ 160,987	\$ 150,512	\$ 13,999	\$ 13,088
Employee Services	\$ 27,512	\$ 52,800	\$ 25,311	\$ 48,576	\$ 2,201	\$ 4,224
Insurance & Financial	\$ 1,056,812	\$ 1,138,882	\$ 972,267	\$ 1,047,771	\$ 84,545	\$ 91,111
Purchased Transportation	\$ 4,898,237	\$ 5,086,900	\$ -	\$ -	\$ 4,898,237	\$ 5,086,900
Other Services	\$ 239,114	\$ 245,200	\$ 219,985	\$ 225,584	\$ 19,129	\$ 19,616
Office Supplies	\$ 64,722	\$ 66,000	\$ 59,544	\$ 60,720	\$ 5,178	\$ 5,280
Equipment Supplies	\$ 851,981	\$ 1,086,000	\$ 783,823	\$ 999,120	\$ 68,158	\$ 86,880
Bldg & Const Supplies	\$ 198,093	\$ 61,200	\$ 182,246	\$ 56,304	\$ 15,847	\$ 4,896
Fuels, Oils & Lubricants	\$ 3,834,450	\$ 3,187,400	\$ 3,527,694	\$ 2,932,408	\$ 306,756	\$ 254,992
Other Supplies	\$ 215,475	\$ 178,800	\$ 198,237	\$ 164,496	\$ 17,238	\$ 14,304
Interdepartmental Charges	\$ 756,878	\$ 810,600	\$ 700,328	\$ 749,752	\$ 56,550	\$ 60,848
Depreciation	\$ 6,594,868	\$ 5,700,000	\$ 6,100,253	\$ 5,272,500	\$ 494,615	\$ 427,500
Interest & Bad Expenses	\$ 277,723	\$ 273,700	\$ 255,505	\$ 251,900	\$ 22,218	\$ 21,800
Total Expenses	\$ 57,672,789	\$ 55,916,850	\$ 48,589,564	\$ 46,796,149	\$ 9,083,225	\$ 9,120,701
Income(Deficit)	\$ (14,619,009)	\$ (12,839,816)	\$ (12,583,811)	\$ (10,894,130)	\$ (2,035,198)	\$ (1,945,686)
Less: Depreciation	\$ (6,594,868)	\$ (5,700,000)	\$ (6,100,253)	\$ (5,272,500)	\$ (494,615)	\$ (427,500)
Less: Unfunded OPEB	\$ (453,632)	\$ -	\$ (417,341)	\$ -	\$ (36,291)	\$ -
Debt	\$ 1,028,199	\$ 1,028,200	\$ 997,353	\$ 997,354	\$ 30,846	\$ 30,846
Fixed Assets	\$ 81,701	\$ 244,000	\$ 81,701	\$ 244,000	\$ -	\$ -
Federal Portion of Fixed Assets	\$ (65,360)	\$ (195,200)	\$ (65,360)	\$ (195,200)	\$ -	\$ -
Total Expenditures(City)	\$ 51,668,829	\$ 51,293,850	\$ 43,085,664	\$ 42,569,803	\$ 8,583,165	\$ 8,724,047
Added To/(Taken From)Reserves	\$ 101,830	\$ 75,063	\$ 67,932	\$ 65,221	\$ 33,898	\$ 9,842
Income/(Deficit) (City)	\$ (8,716,879)	\$ (8,291,879)	\$ (7,147,843)	\$ (6,733,005)	\$ (1,569,036)	\$ (1,558,874)

Metro added to its contingent reserve in the amount of \$101,830 in 2011 to balance revenues and expenses. The following table shows Metro's contingent reserve balances and changes in those balances over the past six years.

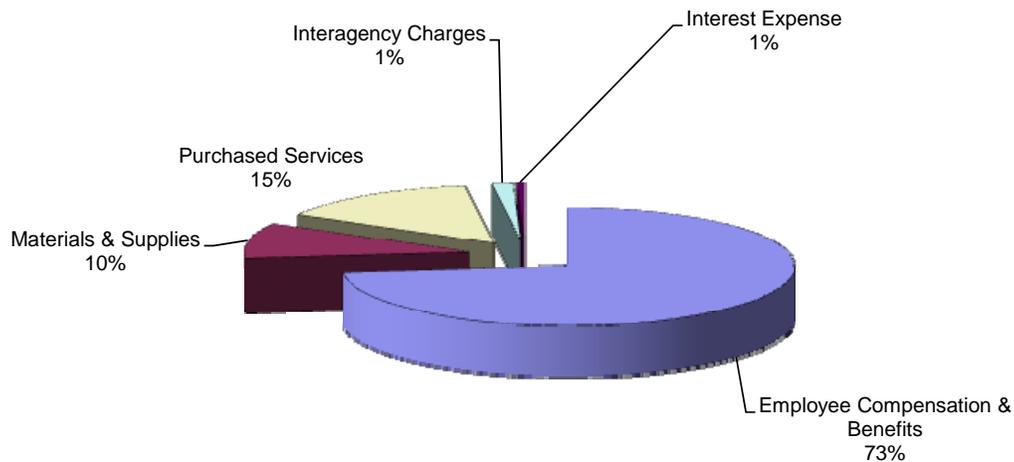
METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Year	Beginning Balance	Reserves +/-	Ending Balance
2006	\$269,429	(\$146,045)	\$123,384
2007	\$123,384	\$609,837	\$733,221
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

As can be seen from the following chart, employee compensation and benefits accounted for 73% of total expenses excluding depreciation in 2011.

2011 Expenses excluding Depreciation

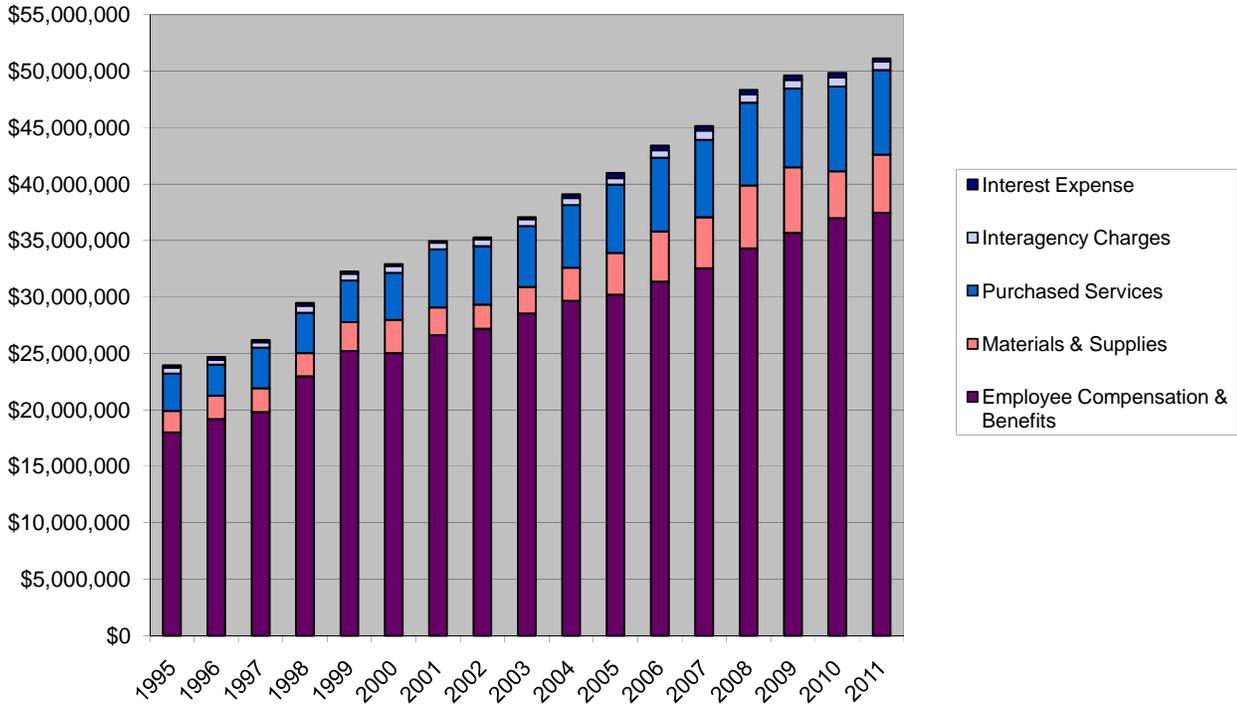


The first of the following charts shows that total operating expenses increased by 2.6% between 2010 and 2011 caused primarily by an increase in the cost of fuel. Between 2006 and 2011 Metro experienced an average increase in total operating costs of 3.6% per year. The second chart compares Metro's revenue sources for the same period of time. Passenger revenue has increased by an average of 11.2% per year during the last 5 years whereas state aid, which provides the largest portion of Metro's revenue, increased 2.5% per year during the same time period.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

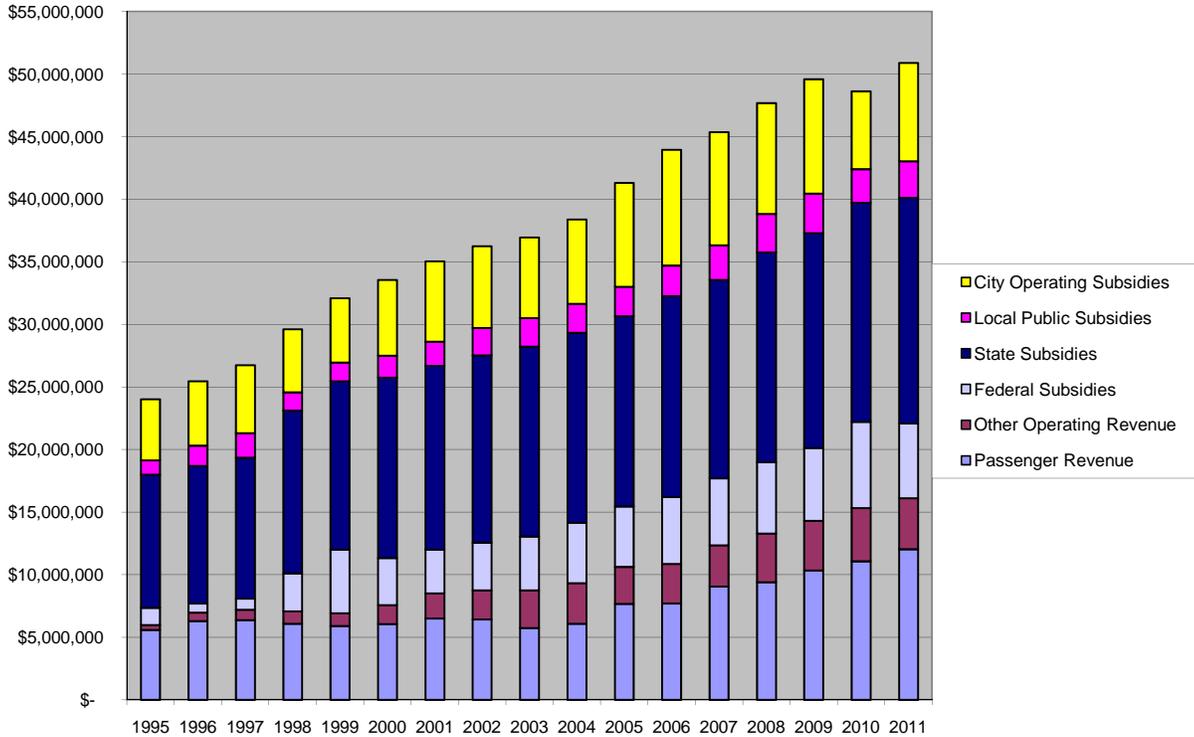
Madison Metro Transit
Historical Expense Comparison



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 expenses were charged during the year. Note that where balances are available as of 12/31/11 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 12/31/11

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

GRANTS	Funding Year	Total Funds Apportionment	Prior years expenditures	Beginning Balance 1/1/11	2011 expenditures	Balance available as of 12/31/11	Future Budgeted projects	Balance after budgeted projects	Detail of future budgeted projects- see page 2 & 3.
Federal Section 5307 Grants									
WI90X438	2005	\$ 7,611,755	\$ 7,611,755	\$ -	\$ -	\$ -	\$ -	\$ -	Grant Closed 11/10/11
WI90X530	2008	\$ 8,362,820	\$ 8,362,814	\$ 6	\$ -	\$ -	\$ -	\$ -	Grant Closed 8/3/11
WI90X549	2009	\$ 8,980,667	\$ 7,725,666	\$ 1,255,001	\$ 267,256	\$ 987,745	\$ 987,745	\$ -	Software, TE Signs, & Farebox.
WI96X011-ARRA	2009	\$ 9,502,302	\$ 9,136,948	\$ 365,354	\$ 97,845	\$ 267,509	\$ 267,509	\$ -	Signs & Security systems
WI90X573	2010	\$ 8,832,424	\$ 7,405,063	\$ 1,427,361	\$ 310,108	\$ 1,117,253	\$ 1,117,253	\$ -	TE, software, hardware, bus wash brushes, Farebox, and Utility Truck.
WI90X630	2011	\$ 8,918,913	\$ -	\$ 8,918,913	\$ 7,355,963	\$ 1,562,950	\$ 1,562,950	\$ -	Maint equip, security cameras, Rehab equip, software, hardware, support vehicles, etc.
FFY12 Grant (Est. apptnmt)	2012	\$ 8,895,697	\$ -	\$ -	\$ -	\$ 8,895,697	\$ 8,895,697	\$ -	security cameras, Rehab equip, software, hardware, support vehicles, ADA Paratran services, etc.
Total Section 5307		\$ 61,104,578	\$ 40,242,246	\$ 11,966,635	\$ 8,031,172	\$ 12,831,154	\$ 12,831,154	\$ -	
Federal Section 5309 Grants (Fixed Guideway)									
WI050048	2009	\$ 1,209,720	\$ 16,044	\$ 1,193,676	\$ 1,193,676	\$ -	\$ -	\$ -	Grant closed on 12/19/11
WI560001-ARRA	2009	\$ 243,232	\$ 243,232	\$ -	\$ -	\$ -	\$ -	\$ -	Grant closed on 4/16/11
WI050049	2010	\$ 1,160,315	\$ -	\$ 1,160,315	\$ 1,160,315	\$ -	\$ -	\$ -	Grant closed on 12/19/11
WI050050	2011	\$ 1,138,831	\$ -	\$ 1,138,831	\$ 768,250	\$ 370,581	\$ 370,581	\$ -	2012 buses
FFY12 Grant (Est. apptnmt)	2012	\$ 735,657	\$ -	\$ 735,657	\$ -	\$ 735,657	\$ 735,657	\$ -	2013 buses
Total Section 5309		\$ 4,487,755	\$ 259,276	\$ 4,228,479	\$ 3,122,241	\$ 1,106,238	\$ 1,106,238	\$ -	
Federal ARRA-Tigger Grant									
WI770001	2010	\$ 150,000	\$ 17,165	\$ 132,835	\$ 132,835	\$ -	\$ -	\$ -	Grant closed on 12/19/11
Total TIGGER		\$ 150,000	\$ 17,165	\$ 132,835	\$ 132,835	\$ -	\$ -	\$ -	
State & SGR Section 5309 Grants (discretionary)									
WI030091	2007	\$ 312,500	\$ -	\$ 312,500	\$ 312,500	\$ -	\$ -	\$ -	Grant closed on 12/8/11
WI040022	2009	\$ 1,642,597	\$ -	\$ 1,642,597	\$ 1,642,597	\$ -	\$ -	\$ -	Grant closed on 12/19/11
WI040043	2010	\$ 414,054	\$ -	\$ 414,054	\$ -	\$ 414,054	\$ 414,054	\$ -	2012 buses & Stoughton Van
WI040042	2010	\$ 187,500	\$ -	\$ 187,500	\$ -	\$ 187,500	\$ 187,500	\$ -	Engineering & Design for new Facility
SGR grant awarded 10/17/11	2011	\$ 6,451,000	\$ -	\$ 6,451,000	\$ -	\$ 6,451,000	\$ 6,451,000	\$ -	2012-13 buses, farebox & shelters
Total State 5309		\$ 9,007,651	\$ -	\$ 9,007,651	\$ 1,955,097	\$ 7,052,554	\$ 7,052,554	\$ -	\$ -
Total Capital Grants		\$ 74,749,984	\$ 40,518,687	\$ 25,335,600	\$ 13,241,345	\$ 20,989,946	\$ 20,989,946	\$ -	
OTHER GRANTS:									
WI260012 (Transport 2020)	2006	\$ 1,980,000	\$ -	\$ 1,980,000	\$ -	\$ 1,980,000	\$ 1,980,000	\$ -	HNTB transport 2020 contract
WI390001 (Transport 2020)	2006	\$ 1,485,000	\$ 1,335,118	\$ 149,882	\$ 24,883	\$ 124,999	\$ 124,999	\$ -	HNTB transport 2020 contract
WI390002 (Transport 2020)	2007	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 1,500,000	\$ -	HNTB transport 2020 contract
WI390003 (Transport 2020)	2007	\$ 250,000	\$ 250,000	\$ -	\$ -	\$ -	\$ -	\$ -	Grant closed on 7/28/11
WI791000 (TIGERII Grant)	2011	\$ 2,250,000	\$ -	\$ 2,250,000	\$ 311,361	\$ 1,938,639	\$ 1,938,639	\$ -	Planning-downtown intermodal terminal
WI800006 (WisDOT)	2011	\$ 125,000	\$ -	\$ 125,000	\$ 226	\$ 124,774	\$ 124,774	\$ -	Planning - Bus Size Study
Total *Other Grants		\$ 7,590,000	\$ 1,585,118	\$ 6,004,882	\$ 336,470	\$ 5,668,412	\$ 5,668,412	\$ -	\$ -

*Other grants for Transport 2020 are funded under City fund SG67 and the TIGERII grant is funded under City fund CD21

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit
Year End Grant Status as of 12/31/10

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

GRANTS	Funding Year	TE projects-1% of grant-Shelters & display signs	Security cameras Systems	Utility Truck, staff truck, support cars	Farebox System	Stoughton Van	HVAC units, exhaust hose, fuel island roof	2012-2013 Paratransit buses	Workforce Scheduling software and misc software	SHOP Equip (fork lift, engine washer, shot blast cabnt, etc.)
Federal Section 5307 Grants										
WI90X438	2005									
WI90X530	2008									
WI90X549	2009	\$ 22,145		\$ -	\$ 855,718				\$ 109,882	
WI96X011-ARRA	2009	\$ 30,500	\$ 237,009			\$ -		\$ -		
WI90X573	2010	\$ 88,325	\$ -	\$ 85,002	\$ 871,842		\$ -		\$ 40,773	\$ 15,378
WI90X630	2011	\$ 89,189	\$ 6,500	\$ 25,364	\$ 1,210,000		\$ 70,000			\$ 41,000
FFY12 Grant (Est. apportionment)	2012	\$ 88,957	\$ 10,000	\$ 25,000			\$ 60,000	\$ 1,167,000		\$ 50,000
Total Section 5307		\$ 319,116	\$ 253,509	\$ 135,366	\$ 2,937,560	\$ -	\$ 130,000	\$ 1,167,000	\$ 150,655	\$ 106,378
Federal Section 5309 Grants (Fixed Guideway)										
WI050048	2009									
WI560001-ARRA	2009									
WI050049	2010									
WI050050	2011									
FFY12 Grant (Est. apportionment)	2012									
Total Section 5309		\$ -						\$ -	\$ -	\$ -
Federal ARRA-Tigger Grant										
WI770001	2010									
Total TIGGER		\$ -						\$ -	\$ -	\$ -
State & SGR Section 5309 Grants (discretionary)										
WI030091	2007									
WI040022	2009									
WI040043	2010					\$ 33,000				
WI040042	2010									
SGR grant awarded 10/17/11	2011	\$ 250,000			\$ 1,000,000					
Total State 5309		\$ 250,000	\$ -	\$ -	\$ 1,000,000	\$ 33,000	\$ -	\$ -	\$ -	\$ -
Total Capital Grants		\$ 569,116	\$ 253,509	\$ 135,366	\$ 3,937,560	\$ 33,000	\$ 130,000	\$ 1,167,000	\$ 150,655	\$ 106,378
OTHER GRANTS:										
WI260012 (Transport 2020)	2006									
WI390001 (Transport 2020)	2006									
WI390002 (Transport 2020)	2007									
WI390003 (Transport 2020)	2007									
WI791000 (TIGERII Grant)	2011									
WI800006 (WisDOT)	2011									
Total *Other Grants		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

*Other grants for Transport 2020 are funded under City fund SG67 and the TIGERII grant is funded under City fund CD21

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit Year End Grant Status as of 12/31/10

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

GRANTS	Funding Year	New Facility Pre Engineering	Computer hardware, MFD & software repl	HNTB Consultants / Bus Size Study & TIGERII consultant	2012/13buses and bus line inspection	2011 MPO	Prev Maint, tires, office lease, Paratmsit & ACM	Total Budgeted Projects
Federal Section 5307 Grants								
WI90X438	2005							
WI90X530	2008							\$ -
WI90X549	2009		\$ -		\$ -			\$ 987,745
WI96X011-ARRA	2009							\$ 267,509
WI90X573	2010		\$ 15,933	\$ -		\$ -	\$ -	\$ 1,117,253
WI90X630	2011		\$ 55,000	\$ -	\$ -	\$ 5,146	\$ 60,751	\$ 1,562,950
FFY12 Grant (Est. apportionmt)	2012		\$ 60,740		\$ 7,000	\$ 45,000	\$ 7,382,000	\$ 8,895,697
Total Section 5307		\$ -	\$ 131,673	\$ -	\$ 7,000	\$ 50,146	\$ 7,442,751	\$ 12,831,154
Federal Section 5309 Grants (Fixed Guideway)								
WI050048	2009				\$ -			\$ -
WI560001-ARRA	2009				\$ -			\$ -
WI050049	2010				\$ -			\$ -
WI050050	2011				\$ 370,581			\$ 370,581
FFY12 Grant (Est. apportionmt)	2012				\$ 735,657			\$ 735,657
Total Section 5309		\$ -			\$ 1,106,238	\$ -	\$ -	\$ 1,106,238
Federal ARRA-Tigger Grant								
WI770001	2010							\$ -
Total TIGGER		\$ -			\$ -	\$ -	\$ -	\$ -
State & SGR Section 5309 Grants (discretionary)								
WI030091	2007				\$ -			\$ -
WI040022	2009				\$ -			\$ -
WI040043	2010				\$ 381,054			\$ 414,054
WI040042	2010	\$ 187,500			\$ -			\$ 187,500
SGR grant awarded 10/17/11	2011				\$ 5,201,000			\$ 6,451,000
Total State 5309		\$ 187,500	\$ -	\$ -	\$ 5,582,054	\$ -	\$ -	\$ 7,052,554
Total Capital Grants		\$ 187,500	\$ 131,673	\$ -	\$ 6,695,292	\$ 50,146	\$ 7,442,751	\$ 20,989,946
OTHER GRANTS:								
WI260012 (Transport 2020)	2006			\$ 1,980,000				\$ 1,980,000
WI390001 (Transport 2020)	2006			\$ 124,999				\$ 124,999
WI390002 (Transport 2020)	2007			\$ 1,500,000				\$ 1,500,000
WI390003 (Transport 2020)	2007			\$ -				\$ -
WI791000 (TIGERII Grant)	2011			\$ 1,938,639				\$ 1,938,639
WI800006 (WisDOT)	2011			\$ 124,774				\$ 124,774
Total *Other Grants		\$ -	\$ -	\$ 5,668,412	\$ -	\$ -	\$ -	\$ 5,668,412

*Other grants for Transport 2020 are funded under City fund SG67 and the TIGERII grant is funded under City fund CD21

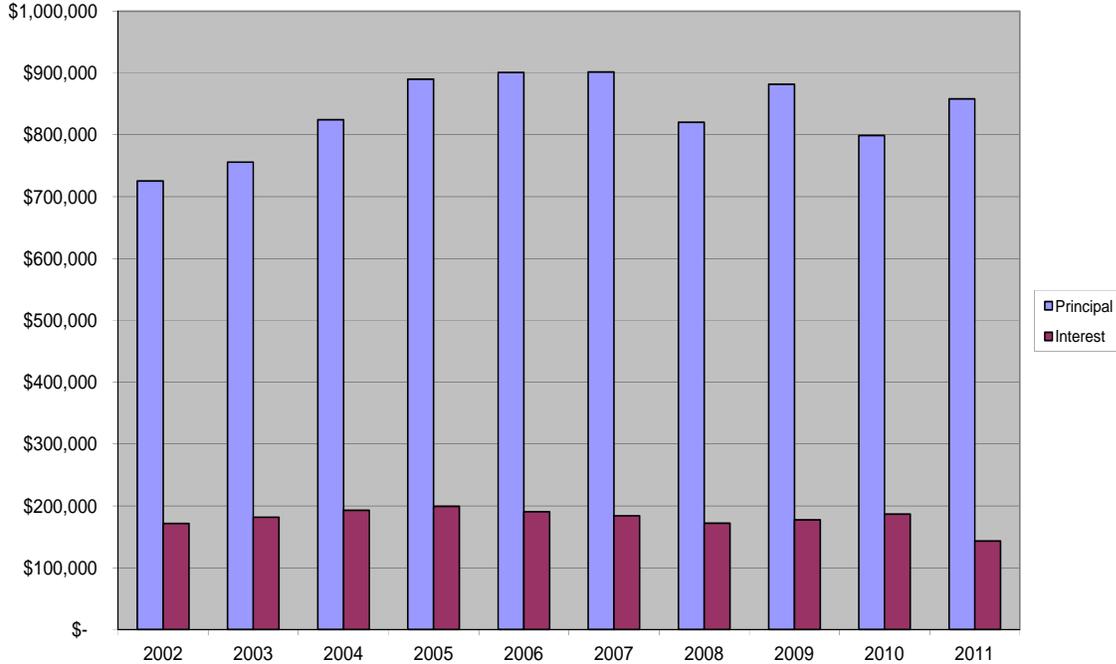
Borrowing

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.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

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 Assets

	2011	2010	2009
Current and Other Assets	\$ 9,462,916	\$ 11,661,223	\$ 8,975,758
Capital Assets ¹	<u>40,193,260</u>	<u>41,028,931</u>	<u>38,460,743</u>
Total Assets	<u>49,656,176</u>	<u>52,690,154</u>	<u>47,436,501</u>
Long-Term Debt ²	9,394,917	8,713,215	9,242,235
Other Liabilities	<u>10,964,641</u>	<u>13,431,682</u>	<u>9,769,576</u>
Total Liabilities	<u>20,359,558</u>	<u>22,144,897</u>	<u>19,011,811</u>
Invested in Capital Assets, Net of Related Debt ³	35,729,656	36,796,583	33,546,521
Unrestricted (Deficit)	<u>(6,433,038)</u>	<u>(6,251,326)</u>	<u>(5,121,832)</u>
Total Net Assets	<u>\$ 29,296,618</u>	<u>\$ 30,545,257</u>	<u>\$ 28,424,689</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 Assets

	2011	2010	2009
Operating Revenues	\$ 16,178,584	\$ 15,364,470	\$ 14,311,144
Depreciation Expense	6,594,868	6,089,482	5,427,865
Other Operating Expenses	50,875,199	49,523,643	49,244,471
Non-operating Expenses ¹	<u>277,723</u>	<u>406,204</u>	<u>398,553</u>
Total Expenses	<u>57,747,790</u>	<u>56,019,329</u>	<u>55,070,889</u>
Operating Subsidies ¹	26,941,035	27,101,036	26,134,472
Income Before Capital			
Contributions and Transfers	(14,628,171)	(13,553,823)	(14,625,273)
Capital Contributions ²	5,525,833	9,452,726	10,211,514
Transfers	<u>7,853,699</u>	<u>6,221,665</u>	<u>9,167,480</u>
Changes in Net Assets	<u>(1,248,639)</u>	<u>2,120,568</u>	<u>4,753,721</u>
Beginning Net Assets	30,545,257	28,424,689	23,670,968
Ending Net Assets	<u>\$ 29,296,618</u>	<u>\$ 30,545,257</u>	<u>\$ 28,424,689</u>

¹ See Statements of Revenues, Expenses and Changes in Net Assets 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, 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 As of December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Restricted cash - retiree health insurance escrow	\$ 248,467	\$ 196,778
Receivable from State of Wisconsin and FTA - capital and maintenance	2,648,272	5,634,164
Receivable from other governmental units	3,116,751	2,202,551
Accounts receivable (net)	871,967	1,035,301
Materials and supplies	462,180	478,552
Prepaid expenses	537,378	609,193
Current portion of prepaid expense - land and tower lease	25,167	26,129
Total Current Assets	<u>7,910,182</u>	<u>10,182,668</u>
NONCURRENT ASSETS		
Restricted cash - retiree health insurance escrow	1,381,852	1,282,506
Other Assets		
Prepaid expenses - land and tower lease	170,882	196,049
Capital Assets		
Transit plant in service	98,347,012	92,948,274
Accumulated depreciation	(58,282,298)	(51,936,508)
Construction work in progress	128,546	17,165
Total Noncurrent Assets	<u>41,745,994</u>	<u>42,507,486</u>
 Total Assets	 <u>49,656,176</u>	 <u>52,690,154</u>

LIABILITIES

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Due to city	\$ 1,025,820	\$ 3,848,528
Current portion of general obligation debt	950,989	858,109
Current portion of advance from other funds	178,147	170,090
Current portion of deferred revenue - land and tower lease	23,118	24,021
Accounts payable	1,184,062	1,366,743
Accrued compensation, vacation and sick leave	1,309,635	1,523,285
Accrued interest	79,635	66,029
Retiree health insurance escrow payable from restricted assets	248,467	196,778
Total Current Liabilities	<u>4,999,873</u>	<u>8,053,583</u>
NONCURRENT LIABILITIES		
General obligation debt	4,280,307	3,521,395
Advance from other funds	3,985,474	4,163,621
Retiree health insurance escrow payable from restricted assets	1,381,852	1,282,506
Accrued sick leave	3,074,165	3,033,441
Deposits from other governments	349,435	232,413
Other post-employment benefits	2,136,810	1,683,178
Deferred revenue - land and tower lease	151,642	174,760
Total Noncurrent Liabilities	<u>15,359,685</u>	<u>14,091,314</u>
 Total Liabilities	 <u>20,359,558</u>	 <u>22,144,897</u>
	NET ASSETS	
NET ASSETS		
Invested in capital assets, net of related debt	35,729,656	36,796,583
Unrestricted (Deficit)	<u>(6,433,038)</u>	<u>(6,251,326)</u>
 TOTAL NET ASSETS	 <u>\$ 29,296,618</u>	 <u>\$ 30,545,257</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES	<u>\$ 16,178,584</u>	<u>\$ 15,364,470</u>
OPERATING EXPENSES		
Employee compensation and benefits	37,462,095	37,001,510
Materials and supplies	5,164,721	4,131,430
Purchased services	7,491,505	7,597,128
Interagency charges	756,878	793,575
Total Operation and Maintenance Expenses	<u>50,875,199</u>	<u>49,523,643</u>
Depreciation expense	<u>6,594,868</u>	<u>6,089,482</u>
Total Operating Expenses	<u>57,470,067</u>	<u>55,613,125</u>
Operating Loss	<u>(41,291,483)</u>	<u>(40,248,655)</u>
OPERATING SUBSIDIES		
Federal subsidies	5,985,721	6,902,527
State operating subsidies	18,021,300	17,496,400
Other state subsidies	8,431	8,672
Local public subsidies	<u>2,925,583</u>	<u>2,693,437</u>
Total Operating Subsidies	<u>26,941,035</u>	<u>27,101,036</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	<u>(277,723)</u>	<u>(406,204)</u>
Loss Before Contributions and Transfers	<u>(14,628,171)</u>	<u>(13,553,823)</u>
CAPITAL CONTRIBUTIONS - CITY & OTHER	872,342	929,373
CAPITAL CONTRIBUTIONS - FEDERAL & STATE	4,653,491	8,523,353
TRANSFERS IN - MPO	9,161	8,741
TRANSFERS IN - CITY OPERATING SUBSIDIES	<u>7,844,538</u>	<u>6,212,924</u>
Total Contributions and Transfers	<u>13,379,532</u>	<u>15,674,391</u>
CHANGE IN NET ASSETS	(1,248,639)	2,120,568
NET ASSETS - Beginning of Year	<u>30,545,257</u>	<u>28,424,689</u>
NET ASSETS - End of Year	<u>\$ 29,296,618</u>	<u>\$ 30,545,257</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 15,676,705	\$ 15,556,964
Paid to suppliers for goods and services	(25,326,627)	(24,230,964)
Paid to employees for services	(24,899,521)	(24,682,308)
Cash Flows from Operating Activities	(34,549,443)	(33,356,308)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Received from (paid to) city for implicit financing	(2,822,708)	2,951,159
Operating subsidies received - federal	4,494,568	6,955,866
Operating subsidies received - state	22,403,806	13,130,972
Operating subsidies received - local	2,376,061	3,049,941
Deposits received from other governments	117,022	107,737
Repayment of non-capital advances from other funds	(170,090)	(96,028)
Interest paid on non-capital advances from other funds	(120,809)	(395,423)
Proceeds from non-capital advances from other funds	-	202,695
Operating transfer from city	7,844,538	6,212,924
Cash Flows from Noncapital Financing Activities	34,122,388	32,119,843
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(858,108)	(798,836)
Interest paid	(143,308)	(160,657)
Proceeds from issuance of general obligation debt	1,709,900	163,150
Acquisition and construction of capital assets	(5,759,197)	(8,680,912)
Capital contributions - city and other	872,342	929,373
Capital contributions - federal and state	4,756,461	9,940,358
Cash Flows From Capital and Related Financing Activities	578,090	1,392,476
Net Change in Cash and Cash Equivalents	151,035	156,011
CASH AND CASH EQUIVALENTS – Beginning of Year	1,479,284	1,323,273
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,630,319	\$ 1,479,284
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt refinanced	\$ -	\$ 5,253,758

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (41,291,483)	\$ (40,248,655)
Noncash items included in operating loss		
Depreciation expense	6,594,868	6,089,482
Other noncash items	-	23,243
Changes in Assets and Liabilities		
Accounts receivable	(475,750)	198,989
Materials and supplies	16,372	31,496
Prepaid expenses	97,944	8,814
Accrued payroll liabilities	(172,926)	(49,014)
Retiree health insurance escrow payable from restricted assets	151,035	156,011
Other post-employment benefits	453,632	446,662
Accounts payable	100,886	14,233
Other deferred credits	(24,021)	(27,569)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (34,549,443)</u>	<u>\$ (33,356,308)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS		
Restricted Cash - Retiree Health Insurance Escrow	<u>\$ 1,630,319</u>	<u>\$ 1,479,284</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

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 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 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in Metro's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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

As of and for the Years Ended December 31, 2011 and 2010

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

As of and for the Years Ended December 31, 2011 and 2010

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 \$30,367 and \$29,273 are included in 2011 and 2010, 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 2011 and 2010.

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 12/31/11	Balance 12/31/10	Years
Land	\$ 2,604,992	\$ 2,604,992	N/A
Building	12,000,988	11,764,613	5 – 40
Curb and land improvements	6,731,272	6,566,431	5
Revenue equipment	65,478,343	60,401,005	8 – 20
Service vehicles	736,052	683,318	4 – 5
Shop and garage equipment	1,880,814	1,883,258	3 – 10
Furniture and office equipment	1,644,375	1,773,289	3 – 10
Miscellaneous and farebox	7,270,176	7,271,368	3 – 15
Total Capital Assets	\$ 98,347,012	\$ 92,948,274	

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

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 Metro's operating revenues. The estimated liability for current employees at December 31, 2011 and 2010 is \$ 3,251,955 and \$3,418,555, 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 2011 and 2010 was \$383,000 and \$343,000, 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. 103 current employees have met the eligibility requirements.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

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.

Deposits from Other Governments

Metro received \$117,022 and \$107,737, respectively in deposits in 2011 and 2010 from the entities listed in Note 5 that provide Metro with local operating assistance subsidies. These deposits will be held by Metro in reserve to help fund unanticipated cost increases in future years.

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

- *Unrestricted net assets* – This 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.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

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

ASSETS, LIABILITIES, AND NET ASSETS (cont.)

Net Assets (cont.)

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

	<u>2011</u>	<u>2010</u>
Plant in service	\$ 98,347,012	\$ 92,948,274
Accumulated depreciation	(58,282,298)	(51,936,508)
Construction work in progress	128,546	17,165
Sub-Totals	<u>40,193,260</u>	<u>41,028,931</u>
Less: Capital related debt		
Current portion of general obligation bonds	950,989	858,109
Long-term portion of capital related general obligation bonds	4,280,307	3,521,395
Sub-Totals	<u>5,231,296</u>	<u>4,379,504</u>
Add unspent proceeds of capital-related debt included above	<u>767,692</u>	<u>147,156</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 35,729,656</u>	<u>\$ 36,796,583</u>

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.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

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

REVENUES AND EXPENSES (cont.)

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

Comparative Data

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

Effect of New Accounting Standards on Current Period Financial Statements

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* and Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64 *Derivative Instruments: Applications of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*. Application of these standards may restate portions of these financial statements.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 2 – CHANGES IN CAPITAL ASSETS

A summary of changes in Metro capital assets for 2011 and 2010 follows:

	Balance 1/1/11	Additions	Retirements	Adjustments	Balance 12/31/11
Capital assets not being depreciated					
Land	\$ 2,604,992	\$ -	\$ -	\$ -	\$ 2,604,992
Capital assets being depreciated					
Building and improvements	11,764,613	231,563	-	4,812	12,000,988
Curb and land improvements	6,566,431	194,211	(29,370)	-	6,731,272
Revenue vehicles	60,401,005	5,077,338	-	-	65,478,343
Service vehicles	683,318	52,734	-	-	736,052
Shop and garage equipment	1,883,258	26,302	(28,746)	-	1,880,814
Office equipment	1,773,289	28,967	(158,545)	664	1,644,375
Miscellaneous and farebox	7,271,368	31,888	(33,080)	-	7,270,176
Total Capital Assets Being Depreciated	<u>90,343,282</u>	<u>5,643,003</u>	<u>(249,741)</u>	<u>5,476</u>	<u>95,742,020</u>
Total Capital Assets	<u>92,948,274</u>	<u>5,643,003</u>	<u>(249,741)</u>	<u>5,476</u>	<u>98,347,012</u>
Less: Accumulated depreciation					
Building and improvements	(8,299,549)	(398,722)	-	-	(8,698,271)
Curb and land improvements	(5,560,267)	(407,202)	29,370	-	(5,938,099)
Revenue vehicles	(30,342,730)	(4,780,459)	-	-	(35,123,189)
Service vehicles	(547,252)	(53,360)	-	-	(600,612)
Shop and garage equipment	(1,555,962)	(85,158)	28,746	-	(1,612,374)
Office equipment	(1,228,510)	(171,597)	158,545	(663)	(1,242,225)
Miscellaneous and farebox	(4,402,238)	(698,370)	33,080	-	(5,067,528)
Total Accumulated Depreciation	<u>(51,936,508)</u>	<u>(6,594,868)</u>	<u>249,741</u>	<u>(663)</u>	<u>(58,282,298)</u>
Construction in progress	<u>17,165</u>	<u>344,612</u>	<u>(233,231)</u>	<u>-</u>	<u>128,546</u>
Net Transit System Plant	<u>\$ 41,028,931</u>				<u>\$ 40,193,260</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 2 – CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/10	Additions	Retirements	Adjustments	Balance 12/31/10
Capital assets, not being depreciated					
Land	\$ 2,628,235	\$ -	\$ (23,243)	\$ -	\$ 2,604,992
Capital assets being depreciated					
Building and improvements	11,630,925	133,688	-	-	11,764,613
Curb and land improvements	6,573,122	35,280	(41,971)	-	6,566,431
Revenue vehicles	55,951,262	7,875,950	(3,426,207)	-	60,401,005
Service vehicles	686,318	-	(3,000)	-	683,318
Shop and garage equipment	1,763,008	126,022	(5,772)	-	1,883,258
Office equipment	1,438,903	334,386	-	-	1,773,289
Miscellaneous and farebox	7,112,947	158,421	-	-	7,271,368
Total Capital Assets Being Depreciated	<u>85,156,485</u>	<u>8,663,747</u>	<u>(3,476,950)</u>	<u>-</u>	<u>90,343,282</u>
Total Capital Assets	<u>87,784,720</u>	<u>8,663,747</u>	<u>(3,500,193)</u>	<u>-</u>	<u>92,948,274</u>
Less: Accumulated depreciation					
Building and improvements	(7,896,710)	(402,839)	-	-	(8,299,549)
Curb and land improvements	(5,182,718)	(419,520)	41,971	-	(5,560,267)
Revenue vehicles	(29,486,916)	(4,282,021)	3,426,207	-	(30,342,730)
Service vehicles	(502,166)	(48,086)	3,000	-	(547,252)
Shop and garage equipment	(1,483,754)	(77,980)	5,772	-	(1,555,962)
Office equipment	(1,074,129)	(154,381)	-	-	(1,228,510)
Miscellaneous and farebox	(3,697,584)	(704,654)	-	-	(4,402,238)
Total Accumulated Depreciation	<u>(49,323,977)</u>	<u>(6,089,481)</u>	<u>3,476,950</u>	<u>-</u>	<u>(51,936,508)</u>
Construction in progress	-	96,320	(79,155)	-	17,165
Net Transit System Plant	<u>\$ 38,460,743</u>				<u>\$ 41,028,931</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 3 – INTER-FUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of inter-fund balances as of December 31, 2011 and 2010:

Due To	Due From	2011		2010	
		Amount	Purpose	Amount	Purpose
City of Madison	Metro	\$ 1,025,820	Implicit cash financing	\$ 3,848,528	Implicit cash financing

The following is a schedule of transfer balances as of December 31, 2011 and 2010:

To	From	2011		2010	
		Amount	Principal Purpose	Amount	Principal Purpose
Metro	City of Madison	\$7,844,538	City operating subsidy	\$6,212,924	City operating subsidy
Metro	City of Madison	\$9,161	Local share of MPO grant	\$8,741	Local share of MPO grant

NOTE 4 – LONG-TERM OBLIGATIONS

GENERAL OBLIGATION NOTES

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 12/31/11
Promissory Note	10-1-07	10-1-17	4.00 – 5.00%	\$ 380,648	\$ 228,389
Promissory Note	10-15-08	10-15-18	3.82%	1,420,000	994,000
Promissory Note	10-1-09	10-1-15	2.00 – 3.00%	1,418,700	777,434
Promissory Note	10-1-09	10-1-19	0.90 – 4.35%	805,000	643,926
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	779,757
Promissory Note	10-1-11	10-1-21	0.45 - 5.00%	1,709,900	1,709,900
Total					<u>\$ 5,231,296</u>

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

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
2012	\$ 38,065	\$ 9,135	\$ 142,000	\$ 39,476	\$ 305,934	\$ 21,779	\$ 80,537	\$ 20,704	\$ -	\$ 2,822	\$ 213,348	\$ 29,680
2013	38,065	7,613	142,000	34,506	224,362	12,600	80,537	19,094	-	2,822	209,665	21,146
2014	38,065	6,090	142,000	29,181	123,569	5,870	80,537	17,382	-	2,822	205,748	12,760
2015	38,065	4,568	142,000	23,856	123,569	3,089	80,463	15,067	16,315	2,822	75,348	4,530
2016	38,065	3,045	142,000	18,176	-	-	80,463	12,653	16,315	2,496	75,648	2,270
2017	38,064	1,523	142,000	12,141	-	-	80,463	9,836	16,315	2,121	-	-
2018	-	-	142,000	6,106	-	-	80,463	6,779	16,315	1,672	-	-
2019	-	-	-	-	-	-	80,463	3,460	16,335	1,183	-	-
2020	-	-	-	-	-	-	-	-	16,295	613	-	-
2021	-	-	-	-	-	-	-	-	-	-	-	-
Totals	\$ 228,389	\$ 31,974	\$ 994,000	\$ 163,442	\$ 777,434	\$ 43,338	\$ 643,926	\$ 104,975	\$ 97,890	\$ 19,373	\$ 779,757	\$ 70,386

Year	10-01-11		Total	
	Principal	Interest	Principal	Interest
2012	\$ 171,105	\$ 76,944	\$ 950,989	\$ 200,540
2013	170,978	71,810	865,607	169,591
2014	170,977	64,971	760,896	139,077
2015	170,977	56,422	646,737	110,354
2016	170,977	47,874	523,468	86,514
2017	170,978	39,325	447,820	64,945
2018	170,977	30,776	409,755	45,333
2019	170,977	22,227	267,775	26,870
2020	170,977	13,678	187,272	14,291
2021	170,977	6,839	170,977	6,839
Totals	\$ 1,709,900	\$ 430,866	\$ 5,231,296	\$ 864,354

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

DEBT REFUNDING

On October 19, 2010 the municipality, on behalf of Metro, issued \$5,253,759 in bonds with an average interest rate of 3.0 percent to refund \$5,253,759 of outstanding bonds with an average interest rate of 5.0 percent. The proceeds were transferred to the city's debt service fund where they were used to pay off the refunded bonds when callable in 2011. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed.

The cash flow requirements on the old bonds prior to the advance refunding was \$7,184,838 from 2011 through 2024. The cash flow requirements on the new bonds are \$6,656,036 from 2011 through 2024. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new bonds) of \$502,713.

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 12/31/11
October 19, 2010	Pay off WRS Prior Service Liability	October 19, 2024	0.55 - 4.00%	\$4,333,711	\$4,163,621

Advance from other funds debt service requirements to maturity follows:

Year	Principal	Interest	Total
2012	\$ 178,147	\$ 126,232	\$ 304,379
2013	192,470	124,718	317,188
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	20,840	541,852
Totals	<u>\$ 4,163,621</u>	<u>\$ 1,190,363</u>	<u>\$ 5,353,984</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Metro's long-term obligations activity for the years ended December 31, 2011 and 2010 is as follows:

	Balance 1/1/11	Additions	Reductions	Balance 12/31/11	Due Within One Year
General obligation notes	\$ 4,379,504	\$ 1,709,900	\$ 858,108	\$ 5,231,296	\$ 950,989
Advance from other funds	4,333,711	-	170,090	4,163,621	178,147
Retiree health insurance escrow	1,479,284	383,000	231,965	1,630,319	248,467
Accrued sick leave	3,418,556	335,510	502,111	3,251,955	177,790
Deposits from other governments	232,413	117,022	-	349,435	-
Unfunded OPEB liability	1,683,178	453,632	-	2,136,810	-
Deferred revenue-land and tower lease	198,781	-	24,021	174,760	23,118
Totals	<u>\$ 15,725,427</u>	<u>\$ 2,999,064</u>	<u>\$ 1,786,295</u>	<u>\$ 16,938,196</u>	<u>\$ 1,578,511</u>

	Balance 1/1/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
General obligation notes	\$ 5,015,191	\$ 1,083,196	\$ 1,718,883	\$ 4,379,504	\$ 858,109
Advance from other funds	4,227,044	4,536,406	4,429,739	4,333,711	170,090
Retiree health insurance escrow	1,323,273	348,175	192,164	1,479,284	196,778
Accrued sick leave	3,416,770	90,013	88,227	3,418,556	385,115
Deposits from other governments	124,676	107,737	-	232,413	-
Unfunded OPEB liability	1,236,516	446,662	-	1,683,178	-
Deferred revenue-land and tower lease	223,700	-	24,919	198,781	24,021
Totals	<u>\$ 15,567,170</u>	<u>\$ 6,612,189</u>	<u>\$ 6,453,932</u>	<u>\$ 15,725,427</u>	<u>\$ 1,634,113</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

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 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Federal	\$ 5,985,721	\$ 6,902,527
State	18,021,300	17,496,400
Other state subsidies	8,431	8,672
Local public subsidies	2,925,583	2,693,437
City of Madison	7,844,538	6,212,924
Other grants MPO	9,161	8,741

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 – DEFERRED 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 over the life of the leases.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 – DEFERRED 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 deferred and is being recognized over the life of the leases.

The following table represents the deferred revenue to be recognized over the remaining life of the leases:

	Oscar Mayer	University Research Park	North Park & Ride Lot	Total
2012	\$ 5,002	\$ 9,919	\$ 10,246	\$ 25,167
2013	-	9,482	17,183	26,665
2014	-	9,076	16,706	25,782
2015	-	8,699	16,242	24,941
2016	-	8,350	15,791	24,141
2017-2021	-	25,185	30,278	55,463
2022-2026	-	12,435	-	12,435
2027	-	1,455	-	1,455
	\$ 5,002	\$ 84,601	\$ 106,446	\$ 196,049

The difference between the total prepaid asset and the deferred revenue is equal to the 20% local match on the North Park & Ride Lot which was not deferred.

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 permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees were required by statute to contribute 5.8% and 6.2% of their salary to the plan in 2011 and 2010, respectively. Metro makes 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.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 7 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

	Years Ended December 31		
	2011	2010	2009
Total Covered Metro Payroll	<u>\$ 24,362,753</u>	<u>\$ 24,234,532</u>	<u>\$ 25,080,498</u>
Total Required Contributions	<u>\$ 2,826,079</u>	<u>\$ 2,665,799</u>	<u>\$ 2,608,372</u>
Total Required Contributions (%)	<u>11.6%</u>	<u>11.0%</u>	<u>10.4%</u>

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, 2011 and 2010.

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.

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.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

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

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 2011:

	Entire City		Metro	
	2011	2010	2011	2010
Annual required contribution	\$ 6,042,623	\$ 5,872,509	\$ 1,014,369	\$ 949,120
Contributions made	2,706,755	2,565,125	560,737	502,458
Increase in Net OPEB Obligation	3,335,868	3,307,384	453,632	446,662
Net OPEB Obligation – Beginning of year	11,787,496	8,480,112	1,683,178	1,236,516
Net OPEB Obligation – End of Year	<u>\$ 15,123,364</u>	<u>\$ 11,787,496</u>	<u>\$ 2,136,810</u>	<u>\$ 1,683,178</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 2011, 2010 and 2009 were as follows:

City

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
December 31, 2011	\$ 6,042,623	45%	\$ 15,123,364
December 31, 2010	\$ 5,872,509	44%	\$ 11,787,496
December 31, 2009	\$ 6,165,565	64%	\$ 8,480,112

Metro

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
December 31, 2011	\$ 1,014,369	53%	\$ 2,136,810
December 31, 2010	\$ 949,120	53%	\$ 1,683,178
December 31, 2009	\$ 905,662	53%	\$ 1,236,516

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

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

The funded status of the plan (for the entire city) as of January 1, 2011, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 48,786,392
Actuarial value of plan assets	<u>1,479,283</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$ <u>47,307,109</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>3.0%</u>
Covered payroll (active plan members)	\$ <u>157,095,230</u>
UAAL as a percentage of covered payroll	<u>30.1%</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 2012, reduced by decrements to an ultimate rate of 4.5% for 2019 and beyond. Both rates include a 3.0% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2011, was 25 years.

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 9 – 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 workers' compensation claims. The city 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 2011, TMi issued to Metro an auto liability insurance 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 \$100,000 per person and \$300,000 per accident in uninsured/underinsured 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 the corporation 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 this corporation is 41.86% 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, 2575 S. Memorial Drive, Suite 105, Appleton, WI 54915-1483 or by email from tmi@new.rr.com.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 10 – BASIS FOR EXISTING FARES

Current fares were made effective April 4, 2009 as approved by the Transit and Parking Commission.

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 2008 the Transit and Parking Commission approved a contract with Gillig Corp. for the purchase of up to 75 buses over a five-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.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS 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 (Metro) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 15, 2012. 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

Management of Metro is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, 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 deficiency in internal controls 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Honorable Mayor and Common Council
Metro Transit System

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Metro in a separate letter dated June 15, 2012.

This report is intended solely for the information and use of management, the Honorable Mayor and Common Council, others within the entity, 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.

Baker Tilly Veitch Krause, LLP

Madison, Wisconsin
June 15, 2012

METRO TRANSIT SYSTEM

OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2011 and 2010

OPERATING REVENUES	<u>2011</u>	<u>2010</u>
Passenger Fares for Transit Services		
Farebox revenues	\$ 1,452,067	\$ 1,296,772
Adult ticket revenue	849,540	813,390
Student ticket revenue	375,880	375,370
Elderly and handicapped revenue	619,423	562,017
Monthly/Daily Pass revenue	1,186,014	1,168,186
Summer youth passes	24,120	23,640
Easy rider pass - all days	334,440	348,385
UW Student Unlimited Ride Pass agreement revenue	2,996,373	2,755,917
UW/UW Hospital Employee Unlimited Ride Pass agreement	1,688,215	1,522,810
Edgewood College Unlimited Ride Pass agreement	108,347	84,539
MMSD passes	1,241,763	1,198,999
MATC Unlimited Ride Pass agreement	726,495	654,808
City of Madison Employee Unlimited Ride Pass agreement	146,696	139,768
St Marys Unlimited Ride Pass agreement	56,677	50,940
Meriter Unlimited Ride Pass agreement	38,770	37,434
Dane County Unlimited Ride Pass agreement	10,285	-
Commuter Pass Unlimited Ride Pass agreement	187,097	51,101
Total Passenger Fares for Transit Service	<u>12,042,202</u>	<u>11,084,076</u>
Other Operating Revenues		
Advertising revenue	500,000	475,375
Sale of buses, scrap and parts	22,788	39,944
Miscellaneous	132,337	73,934
Dane County - MA Waiver	2,869,448	3,039,057
Dane County - Elderly & Handicapped	143,088	140,217
Dane County - Group Access Service	176,582	195,120
Dane County - Group RSVP Service	80,116	78,860
Dane County - Exceptional Rides	108,091	76,373
Dane County - Common Carrier	54,301	102,718
Dane County - CARE Wisconsin	30,351	39,516
Dane County - Highway (Marketing)	19,280	19,280
Total Other Operating Revenues	<u>4,136,382</u>	<u>4,280,394</u>
Total Operating Revenues	<u>16,178,584</u>	<u>15,364,470</u>
OPERATING EXPENSES		
Operation and Maintenance Expenses		
Employee compensation and benefits		
Salaries and wages	24,877,630	24,789,305
Pensions and benefits	12,584,465	12,212,205
Total Employee Compensation and Benefits	<u>37,462,095</u>	<u>37,001,510</u>
Materials and supplies	5,164,721	4,131,430
Purchased services	7,491,505	7,597,128
Interagency charges	756,878	793,575
Total Operation and Maintenance Expenses	<u>50,875,199</u>	<u>49,523,643</u>
Depreciation expense	6,594,868	6,089,482
Total Operating Expenses	<u>57,470,067</u>	<u>55,613,125</u>
 NET OPERATING LOSS	 <u>\$ (41,291,483)</u>	 <u>\$ (40,248,655)</u>

METRO TRANSIT SYSTEM

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
401.00 Passenger fares for transit service	\$ 12,042,202	\$ 11,084,076
402.00 Special transit fares - New Year's Eve contributions and other	10,000	10,000
402.10 Service charges, NSF charges, etc.	122,337	63,934
406.00 Auxiliary transportation revenue - advertising	500,000	475,375
407.10 Contra-expense for sale of buses, scrap and parts	22,788	39,944
409.10 Local public subsidies	2,925,583	2,693,437
409.30 City of Madison operating subsidy	7,844,538	6,212,924
409.40 Dane County specialized transportation programs	3,481,257	3,691,141
409.99 MPO Local Subsidy	9,161	8,741
411.00 State cash grants and reimbursements	18,029,731	17,505,072
413.00 Federal cash grants and reimbursements	5,985,721	6,902,527
Total Eligible Revenues	<u>50,973,318</u>	<u>48,687,171</u>
EXPENSES - BY OBJECT CLASS TOTAL		
501.01 Operators' salaries and wages	13,599,198	13,690,644
501.02 Other salaries and wages	7,352,736	7,128,238
502.00 Fringe benefits	16,510,161	16,184,300
503.00 Services	702,837	649,908
504.01 Fuel and lubricants	3,829,554	2,840,364
504.02 Tires and tubes	186,353	195,147
504.99 Other materials and supplies	1,332,051	1,242,077
505.00 Utilities	515,213	513,413
506.00 Casualty and liability costs	935,602	897,109
507.00 Taxes	4,896	5,022
508.00 Purchased transportation	4,898,237	5,109,124
509.00 Miscellaneous expense	78,341	106,286
511.00 Interest expense	277,723	406,204
512.00 Leases and rentals	173,142	168,437
513.00 Depreciation	6,594,868	5,427,865
Less: Ineligible depreciation on fixed assets	(6,594,868)	(5,427,865)
516.00 Other Reconciling Items	756,878	793,575
Total Eligible Expenses	<u>51,152,922</u>	<u>49,929,848</u>
NET INCOME (excluding capital contributions and depreciation on fixed assets)	<u>\$ (179,604)</u>	<u>\$ (1,242,677)</u>

METRO TRANSIT SYSTEM

RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL RECOGNIZED REVENUES AND EXPENSES For the Year Ended December 31, 2011

		Per WisDOT Guidelines
Revenues including subsidies and operating transfer		\$ 50,973,318
Less: Non-recognized revenues		
City operating transfer	\$ 7,844,538	
Local public subsidies	2,925,583	
Dane County specialized transportation programs	3,481,257	
MPO Local Subsidy	9,161	
Other federal subsidy	5,985,721	
State operating subsidy	18,029,731	
Nontransportation revenues		
Sale of buses, scrap and parts	22,788	
Service charges, NSF charges, etc.	122,337	
Total Non-Recognized Revenues		<u>38,421,116</u>
WisDOT Eligible Operating Revenues		<u>\$ 12,552,202</u>
Total Expenses per statement including interest expense	\$ 57,747,790	
Add: Fixed assets eligible for operating assistance	-	
Total Expenses		<u>\$ 57,747,790</u>
Less: Non-recognized expenses		
Depreciation	6,594,868	
Interest expense	277,723	
Bad debts	-	
Offset of scrap sales and miscellaneous reimbursements	145,125	
Capital Maintenance Grant @ 100%	7,482,151	
Leases and rentals	173,142	
Interagency indirect charges without approved allocation plan (excludes MPO of \$45,812)	711,066	
Total WisDOT Non-Recognized Expenses		<u>15,384,075</u>
WisDOT Eligible Operating Expenses		<u>\$ 42,363,715</u>
WisDOT Recognized Deficit		\$ (29,811,513)
Less Operating revenues ineligible for federal assistance: Advertising revenue		<u>500,000</u>
Federal Recognized Deficit		<u>\$ (29,311,513)</u>

METRO TRANSIT SYSTEM

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS For the Year Ended December 31, 2011

STATE FUNDS

WisDOT Recognized Deficit		<u>\$ 29,811,513</u>
WisDOT Contract Amount		<u>\$ 18,021,300</u>
City of Madison and Other Local Subsidies	<u>\$ 10,779,282</u>	
5 Times Operating Subsidy		<u>\$ 53,896,410</u>
State Share - Least of the Three		<u>\$ 18,021,300</u>

FEDERAL FUNDS

Capital maintenance		80% Federal	
	<u>Eligible Costs</u>	<u>Share</u>	
Grant WI 90-X549-00	\$ 73,554	\$ 58,843	
Grant WI 90-X573-00	52,632	42,106	
Grant WI 90-X630-00	7,355,965	<u>5,884,772</u>	
Federal operating revenue for current year capital maintenance			<u>\$ 5,985,721</u>

SUMMARY OF FUNDING (2011 only)

	<u>Received in 2011</u>	<u>Receivable 12/31/11</u>	<u>Totals</u>
Federal Operating Funds	\$ -	\$ -	\$ -
Federal Capital Maintenance	3,416,249	2,569,472	5,985,721
State Funds	18,021,300	-	18,021,300
Local Public Subsidies	2,916,977	8,606	2,925,583
MPO Local Subsidy	9,161	-	9,161
City of Madison	<u>7,844,538</u>	<u>-</u>	<u>7,844,538</u>
Total Funding	<u>\$ 32,208,225</u>	<u>\$ 2,578,078</u>	<u>\$ 34,786,303</u>