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**METRO TRANSIT SYSTEM**

An Enterprise Fund of the  
City of Madison, Wisconsin

FINANCIAL STATEMENTS

December 31, 2007 and 2006

# METRO TRANSIT SYSTEM

An Enterprise Fund of the City of Madison, Wisconsin

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December 31, 2007 and 2006

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## INDEPENDENT AUDITORS' REPORT

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

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We have audited the accompanying financial statements of Metro Transit System, an enterprise fund of the City of Madison, Wisconsin as of December 31, 2007 and 2006, 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, 2007 and 2006, 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.

As discussed in the footnotes, Metro Transit System adopted the provisions of GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions (OPEB)* effective January 1, 2007.

To the Honorable Mayor and Common Council  
Metro Transit System

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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. 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.

Our audits were conducted for the purpose of forming opinions on the financial statements. 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.

Madison, Wisconsin  
July \_\_, 2008

## 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, 2007 and 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 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 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 investment 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.

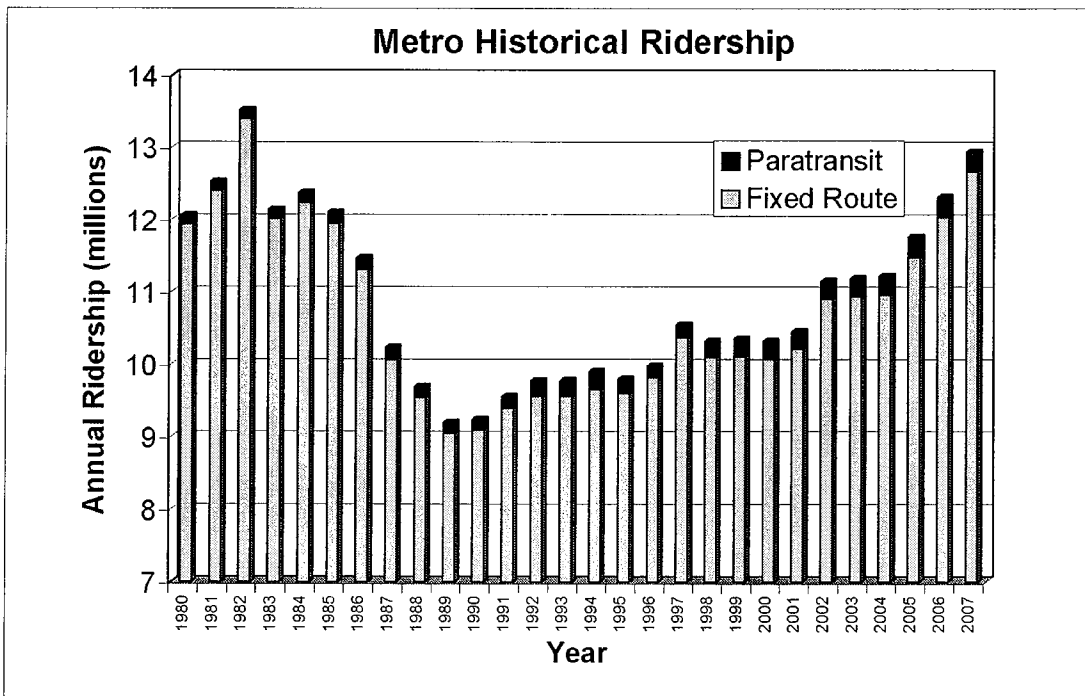
### Annual Overview

In 2007, Metro ridership continued to grow. Annual ridership for fixed route service reached 12.7 million, the highest level in over 20 years, and the second highest on record. This is a very positive trend that counters ongoing financial challenges related to sharply increasing fuel costs and long-term reductions in the percentage of state operating assistance. These trends were addressed in more strategic ways in 2007 by the following initiatives:

- A long range planning committee appointed by the Mayor began its work in January 2007 with the goal of identifying strategies to help Metro's long range financial stability through marketing, funding changes, ridership programs, cost control measures, and service improvements. A key recommendation in the draft final report is the formation of a Regional Transit Authority in the Madison area or Dane County that would have a regional governing body and a stable regional tax source to support public transit.
- Five new hybrid electric diesel buses were purchased and put into service in the fall of 2007. In the final quarter of the year, performance statistics showed the new buses getting 20-30% better fuel economy than other newer standard diesel buses. The public has also positively responded to the quieter operation of the hybrid buses vs. standard buses.

## MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT

- Added services in Middleton and Fitchburg were implemented in late summer 2007. In Fitchburg a new route connects the commercial area along McKee Road to the West Transfer Point, and in Middleton several changes were made, including new Saturday service that connects Middleton with the West Transfer Point. These changes contributed to the ridership increase Metro experienced in 2007 over 2006.
- Metro worked with all funding partners during the year to review and update all expense and revenue allocation formulas. The Contracting Services Oversight Committee, Transit and Parking Commission, and Madison Common Council approved the changes. The approved changes will be used to update all service agreements with funding partners.
- Updated multi-year unlimited ride pass agreements were successfully negotiated with UW ASM, UW Employees/Staff, MATC, Edgewood, and St. Mary Hospital. These unlimited ride pass agreements are key components of Metro's ongoing ridership increases.



# METRO TRANSIT SYSTEM

## MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

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### 2007 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, 2007						
	All Modes		Fixed Route		Paratransit	
	Actual 2007	Budget 2007	Actual 2007	Budget 2007	Actual 2007	Budget 2007
<b>Revenue</b>						
Farebox & Ticket Revenue	\$ 2,778,363	\$ 2,616,157	\$ 2,588,557	\$ 2,455,359	\$ 189,806	\$ 160,758
Pass Revenue	\$ 1,508,644	\$ 1,422,396	\$ 1,506,082	\$ 1,420,330	\$ 2,552	\$ 2,056
Other Passenger Revenue	\$ 4,760,935	\$ 4,158,039	\$ 4,527,226	\$ 4,031,193	\$ 133,709	\$ 126,846
<b>Sub-Total</b>	<b>\$ 9,047,942</b>	<b>\$ 8,196,592</b>	<b>\$ 8,721,875</b>	<b>\$ 7,906,822</b>	<b>\$ 326,067</b>	<b>\$ 289,670</b>
Misc Operating Revenue	\$ 306,848	\$ 390,000	\$ 306,848	\$ 390,000	\$ -	\$ -
Non-Operating Revenue	\$ 132,008	\$ 70,959	\$ 82,176	\$ 64,475	\$ 49,832	\$ 6,484
Misc Revenue/County/Reserves	\$ 2,884,930	\$ 3,227,033	\$ 26,482	\$ 170,530	\$ 2,856,448	\$ 3,056,503
Local Subsidies	\$ 2,778,935	\$ 2,820,319	\$ 2,430,050	\$ 2,562,359	\$ 348,885	\$ 257,950
State Assistance	\$ 15,842,773	\$ 15,194,757	\$ 14,166,450	\$ 14,362,799	\$ 1,674,323	\$ 1,811,958
Federal Assistance	\$ 5,810,465	\$ 5,606,441	\$ 4,802,397	\$ 4,959,366	\$ 1,008,036	\$ 607,085
<b>Total Revenue</b>	<b>\$ 36,803,921</b>	<b>\$ 36,506,101</b>	<b>\$ 30,540,278</b>	<b>\$ 30,476,441</b>	<b>\$ 6,263,643</b>	<b>\$ 6,029,660</b>
<b>Expenditures</b>						
Salaries	\$ 22,410,956	\$ 22,529,801	\$ 20,854,271	\$ 20,771,556	\$ 1,556,685	\$ 1,758,245
Benefits	\$ 10,142,052	\$ 10,132,407	\$ 9,455,843	\$ 9,315,027	\$ 686,209	\$ 617,380
Utilities/Telephone	\$ 656,686	\$ 856,539	\$ 600,574	\$ 776,114	\$ 56,112	\$ 80,425
Repairs & Maint B&G	\$ 100,256	\$ 85,317	\$ 96,745	\$ 82,893	\$ 1,511	\$ 2,424
Repairs & Maint Equip	\$ 209,246	\$ 183,128	\$ 174,193	\$ 139,593	\$ 35,053	\$ 43,435
Rentals	\$ 69,149	\$ 69,731	\$ 64,073	\$ 62,371	\$ 5,076	\$ 5,360
Employee Services	\$ 42,738	\$ 35,850	\$ 40,221	\$ 34,018	\$ 2,517	\$ 2,632
Insurance & Financial	\$ 735,725	\$ 742,068	\$ 671,134	\$ 676,282	\$ 65,991	\$ 65,768
Waste Management	\$ 12,964	\$ 12,205	\$ 11,842	\$ 11,060	\$ 1,122	\$ 1,146
Other Services	\$ 5,024,123	\$ 4,707,577	\$ 318,977	\$ 225,602	\$ 4,706,146	\$ 4,481,975
Office Supplies	\$ 47,734	\$ 62,796	\$ 43,232	\$ 56,866	\$ 4,502	\$ 5,910
Equipment Supplies	\$ 938,937	\$ 939,407	\$ 910,245	\$ 862,767	\$ 28,692	\$ 85,650
Build & Const Supplies	\$ 38,756	\$ 29,565	\$ 36,156	\$ 27,259	\$ 2,540	\$ 3,307
Fuels, Oils & Lubricants	\$ 3,265,049	\$ 3,319,258	\$ 3,152,360	\$ 3,007,996	\$ 112,689	\$ 311,262
Work Supplies	\$ 232,300	\$ 259,780	\$ 211,472	\$ 239,477	\$ 20,828	\$ 20,303
Interdepartmental Charges	\$ 837,856	\$ 679,172	\$ 799,889	\$ 626,076	\$ 38,007	\$ 50,096
Depreciation	\$ 5,417,067	\$ -	\$ 4,936,516	\$ -	\$ 481,552	\$ -
Interest & Bad Expenses	\$ 409,174	\$ 447,491	\$ 372,757	\$ 407,350	\$ 36,417	\$ 40,141
<b>Total Expenditures</b>	<b>\$ 60,591,848</b>	<b>\$ 45,090,094</b>	<b>\$ 42,751,499</b>	<b>\$ 37,314,417</b>	<b>\$ 7,840,349</b>	<b>\$ 7,775,677</b>
<b>Operating Income/(Deficit)</b>	<b>\$ (13,787,927)</b>	<b>\$ (8,583,993)</b>	<b>\$ (12,211,221)</b>	<b>\$ (6,837,976)</b>	<b>\$ (1,576,706)</b>	<b>\$ (1,746,017)</b>
Less: Depreciation	\$ (5,417,067)	\$ -	\$ (4,936,516)	\$ -	\$ (461,552)	\$ -
Less: Unfunded OPEB	\$ (409,668)	\$ -	\$ (350,991)	\$ -	\$ (28,677)	\$ -
Debt	\$ 953,849	\$ 953,806	\$ 869,052	\$ 864,244	\$ 84,797	\$ 89,562
Plus Prpd lease local share	\$ (2,359)	\$ -	\$ (2,359)	\$ -	\$ -	\$ -
Fixed Assets	\$ 581,530	\$ 586,216	\$ 167,734	\$ 153,500	\$ 413,896	\$ 412,616
<b>Total Expenditures/City</b>	<b>\$ 45,259,233</b>	<b>\$ 45,610,216</b>	<b>\$ 38,455,420</b>	<b>\$ 38,332,161</b>	<b>\$ 7,838,813</b>	<b>\$ 8,278,056</b>
Added To/Taken From/Reserves	\$ 609,837	\$ -	\$ (73,427)	\$ -	\$ 663,244	\$ -
<b>Income/(Deficit)/(City)</b>	<b>\$ (19,454,312)</b>	<b>\$ (10,104,115)</b>	<b>\$ (7,929,142)</b>	<b>\$ (7,355,720)</b>	<b>\$ (1,165,170)</b>	<b>\$ (2,248,395)</b>

Metro added \$609,837 to the Contingent Reserve Fund in 2007 to balance the revenues and expenses. The Contingent Reserve is traditionally used as a "rainy day" fund and for the purchase of fixed assets. In 2007 no fixed assets were acquired with the use of Contingent Reserve funds. See below for historical information about Metro's Contingent Reserve.

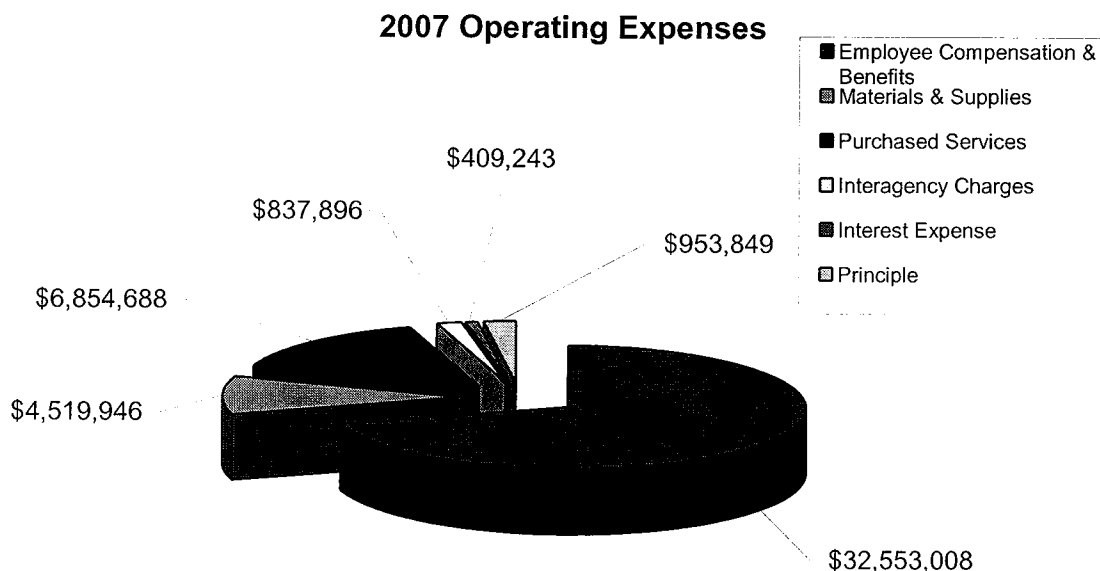
# METRO TRANSIT SYSTEM

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## MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

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
2007	\$123,384	\$609,837	\$733,221

As can be seen from the following chart, employee compensation and benefits accounted for more than 70 percent of the overall operating expenses in 2007.



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

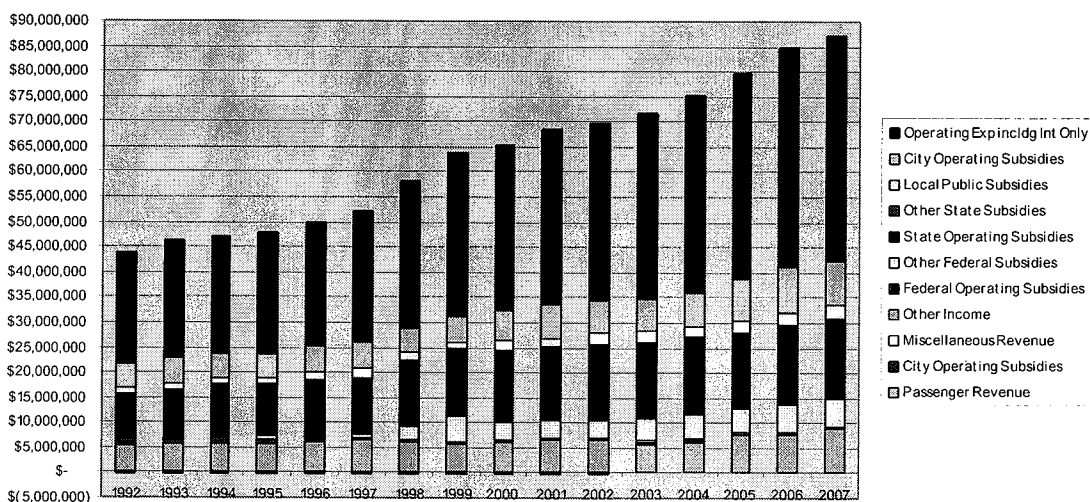
- Operating expenses continue to show a steady increase. Beginning in 2004, fuel cost increases were exceptionally high, bringing increasing operating cost growth to over 4 percent each year.
- Passenger revenues increased 6% in 2007, reflecting increases in ridership under the unlimited ride pass agreements. As part of the agreements, participants are charged a per trip rate for the unlimited ride pass agreements. This has permitted an increase in revenues based on increases in ridership.



## MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

- Metro has not been eligible for Federal Operating Assistance since 1997 because the population is over 200,00, the threshold established by the 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 capital 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 12/31/07 future capital project plans are budgeted to draw down those balances.

# METRO TRANSIT SYSTEM

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## MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

### Madison Metro Transit Year End Grant Status as of 12/31/07

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 1/1/07	2007 expenditures	Balance available as of 12/31/07	Future Budgeted projects	Balance after budgeted projects
<b>Federal Section 5307 Grants</b>							
WI90X419	\$ 5,655,256	\$ 5,642,245	\$ 13,011	\$ 13,000	\$ 11	\$ 11	\$ -
WI90X438	\$ 7,611,755	\$ 7,200,202	\$ 411,553	\$ 64,046	\$ 347,507	\$ 347,507	\$ -
WI90X452	\$ 7,364,618	\$ 6,266,662	\$ 1,097,956	\$ 989,532	\$ 108,424	\$ 108,424	\$ -
WI90X493	\$ 7,778,055	\$ -	\$ 7,778,055	\$ 6,364,604	\$ 1,413,451	\$ 1,413,451	\$ -
FFY08 Grant	\$ 8,362,820	\$ -	\$ -	\$ -	\$ 8,362,820	\$ 8,362,820	\$ -
<b>Total Section 5307</b>	<b>\$ 36,772,504</b>	<b>\$ 19,109,109</b>	<b>\$ 9,300,575</b>	<b>\$ 7,431,182</b>	<b>\$ 10,232,213</b>	<b>\$ 10,232,213</b>	<b>\$ -</b>
<b>Federal Section 5309 Grants (Fixed Guideway)</b>							
WI050046	\$ 1,100,323	\$ -	\$ 1,100,323	\$ -	\$ 1,100,323	\$ 1,100,323	\$ -
FFY08 Grant	\$ 1,174,091	\$ -	\$ 1,174,091	\$ -	\$ 1,174,091	\$ 1,174,091	\$ -
<b>Total Section 5309</b>	<b>\$ 2,274,414</b>	<b>\$ -</b>	<b>\$ 2,274,414</b>	<b>\$ -</b>	<b>\$ 2,274,414</b>	<b>\$ 2,274,414</b>	<b>\$ -</b>
<b>State Section 5309 Grants (discretionary)</b>							
WI030080	\$ 2,029,539	\$ 1,939,535	\$ 90,004	\$ -	\$ 90,004	\$ 90,004	\$ -
WI030087	\$ 3,564,187	\$ 3,318,710	\$ 245,477	\$ -	\$ 245,477	\$ 245,477	\$ -
WI030091	\$ 4,104,360	\$ 3,106,020	\$ 998,340	\$ 413,896	\$ 584,444	\$ 584,444	\$ -
WI040003	\$ 2,139,534	\$ -	\$ 2,139,534	\$ 990,640	\$ 1,148,894	\$ 1,148,894	\$ -
WI040006	\$ 1,135,766	\$ -	\$ 1,135,766	\$ -	\$ 1,135,766	\$ 1,135,766	\$ -
FFY08 Grant	\$ 1,200,000	\$ -	\$ 1,200,000	\$ -	\$ 1,200,000	\$ 1,200,000	\$ -
<b>Total State 5309</b>	<b>\$ 14,173,386</b>	<b>\$ 8,364,265</b>	<b>\$ 5,809,121</b>	<b>\$ 1,404,536</b>	<b>\$ 4,404,585</b>	<b>\$ 4,404,585</b>	<b>\$ -</b>
<b>Total Capital Grants</b>	<b>\$ 53,220,304</b>	<b>\$ 27,473,374</b>	<b>\$ 17,384,110</b>	<b>\$ 8,835,718</b>	<b>\$ 16,911,212</b>	<b>\$ 16,911,212</b>	<b>\$ -</b>
<b>OTHER GRANTS:</b>							
<b>Transport 2020 Grants</b>							
WI170002	\$ 491,964	\$ -	\$ 491,964	\$ 491,964	\$ -	\$ -	\$ -
WI260012	\$ 1,980,000	\$ -	\$ 1,980,000	\$ -	\$ 1,980,000	\$ 1,980,000	\$ -
WI390001	\$ 1,485,000	\$ 627,998	\$ 857,002	\$ 453,204	\$ 403,798	\$ 403,798	\$ -
WI390002	\$ 750,000	\$ -	\$ 750,000	\$ -	\$ 750,000	\$ 750,000	\$ -
WI390002 - Amendment	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 200,000	\$ -
<b>Total Transport 2020 (SG67)</b>	<b>\$ 4,906,964</b>	<b>\$ 627,998</b>	<b>\$ 4,278,966</b>	<b>\$ 945,168</b>	<b>\$ 3,333,798</b>	<b>\$ 3,333,798</b>	<b>\$ -</b>
<b>Other Grants</b>							
WI37X011	\$ 304,475	\$ 168,515	\$ 135,960	\$ 135,960	\$ -	\$ -	\$ -
<b>Total Other</b>	<b>\$ 304,475</b>	<b>\$ 168,515</b>	<b>\$ 135,960</b>	<b>\$ 135,960</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# METRO TRANSIT SYSTEM

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## MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit Year End Grant Status as of 12/31/07									
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	Security cameras on buses - % grant	Staff Cars (support vehicles)	New bus purchase - spare parts & diag Equip.	Bus Wash System	Tunnel door & overhead doors	temp cntrls, doors & cages	HVAC makeup units	
<b>Federal Section 5307 Grants</b>	Detail of future budgeted projects- see page 2 & 3.								
W190X439	transit fleet software (part)								
W190X438	Bldg Rehab, software, P&R, TE, equip, etc.	\$ 35,000.00				\$ 25,778.00	\$ 40,000.00	\$ 40,000.00	
W190X452	Rehab WTP (TE) P&R lot								
W190X493	MPO, PM, leases, TE, buses, equip, spr prts, security, etc	\$ 42,780.00	\$ 144,000.00	\$ 176,000.00	\$ 100,000.00				
FFY08 Grant	MPO, PM, leases, TE, buses, equip, security cam, etc	\$ 83,000.00	\$ 144,000.00	\$ 15,000.00	\$ 400,000.00				
<b>Total Section 5307</b>		<b>0</b>	<b>\$ 160,780.00</b>	<b>\$ 288,000.00</b>	<b>\$ 115,000.00</b>	<b>\$ 25,778.00</b>	<b>\$ 40,000.00</b>	<b>\$ 40,000.00</b>	
<b>Federal Section 5309 Grants (Fixed Guideway)</b>									
W1050046	2008 & 2009 buses								
FFY08 Grant	2008 & 2009 buses								
<b>Total Section 5309</b>		<b>0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>State Section 5309 Grants (discretionary)</b>									
W1030080	2008 & 2009 buses								
W1030087	Building rehab-overhead doors & buses						\$ 150,917.00		
W1030091	2008 & 2009 buses								
W1040003	2008 & 2009 buses								
W1040006	2009 & 2009 buses								
FFY08 Grant	2008 & 2009 buses								
<b>Total State 5309</b>		<b>0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 150,917.00</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Capital Grants</b>		<b>0</b>	<b>\$ 160,780.00</b>	<b>\$ 288,000.00</b>	<b>\$ 115,000.00</b>	<b>\$ 400,000.00</b>	<b>\$ 176,695.00</b>	<b>\$ 40,000.00</b>	<b>\$ 40,000.00</b>
<b>OTHER GRANTS:</b>									
Transport 2020 Grants									
W1170002	close grant								
W1260012	HNTB transport 2020 contract								
W1390001	HNTB transport 2020 contract								
W1390002	HNTB transport 2020 contract								
W1390002 - Amendment	HNTB transport 2020 contract								
<b>Total Transport 2020 (SG67)</b>		<b>0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Other Grants									
W137X011	JARC - operating exp/rev - close grant								
<b>Total Other</b>		<b>0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# METRO TRANSIT SYSTEM



## MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

### Madison Metro Transit Year End Grant Status as of 12/31/07

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

	ETP Park & Ride Lease/Construction	Transitmaster software upgrade and misc software	SHOP Equip (fork lift, mobile lift, bobcat)	VOIP Phone System	Computer hardware & software repl	Transport 2020 HNTB Consultants / On board survey	2008 MPO	Prev Maint, tires, office lease, Paramsit & ACM	Total Budgeted Projects
<b>Federal Section 5307 Grants</b>									
WI90X419	\$ 11.00								\$ 11.00
WI90X438	\$ 92,576.00	\$ 50,000.00	\$ 20,687.00	\$ 78,466.00					\$ 347,507.00
WI90X452	\$ 73,424.00								\$ 108,424.00
WI90X493			\$ 57,767.00	\$ 75,034.00	\$ 52,900.00	\$ 698,970.00	\$ 21,000.00	\$ 45,000.00	\$ 1,413,451.00
FFY08 Grant			\$ 79,810.00		\$ 17,100.00	\$ 622,000.00	\$ 25,000.00	\$ 6,976,910.00	\$ 8,362,820.00
<b>Total Section 5307</b>	<b>\$ 166,000.00</b>	<b>\$ 50,011.00</b>	<b>\$ 158,264.00</b>	<b>\$ 153,500.00</b>	<b>\$ 70,000.00</b>	<b>\$ 1,320,970.00</b>	<b>\$ 46,000.00</b>	<b>\$ 7,021,910.00</b>	<b>\$ 10,232,213.00</b>
<b>Federal Section 5309 Grants (Fixed Guideway)</b>									
WI050046						\$ 1,100,323.00			\$ -
FFY08 Grant						\$ 1,174,091.00			\$ 1,100,323.00
<b>Total Section 5309</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,274,414.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,274,414.00</b>
<b>State Section 5309 Grants (discretionary)</b>									
WI030080						\$ 90,004.00			\$ 90,004.00
WI030087						\$ 94,360.00			\$ 245,477.00
WI030091						\$ 584,444.00			\$ 584,444.00
WI040003						\$ 1,148,894.00			\$ 1,148,894.00
WI040006						\$ 1,135,766.00			\$ 1,135,766.00
FFY08 Grant						\$ 1,200,000.00			\$ 1,200,000.00
<b>Total State 5309</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,253,668.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,404,585.00</b>
<b>Total Capital Grants</b>	<b>\$ 166,000.00</b>	<b>\$ 50,011.00</b>	<b>\$ 158,264.00</b>	<b>\$ 153,500.00</b>	<b>\$ 70,000.00</b>	<b>\$ 7,849,052.00</b>	<b>\$ 46,000.00</b>	<b>\$ 7,021,910.00</b>	<b>\$ 16,911,212.00</b>
<b>OTHER GRANTS:</b>									
Transport 2020 Grants									
WI170002						\$ 1,980,000.00			\$ 1,980,000.00
WI260012						\$ 403,798.00			\$ 403,798.00
WI390001						\$ 1,500,000.00			\$ 1,500,000.00
WI390002						\$ 200,000.00			\$ 200,000.00
WI390002 - Amendment						\$ 4,083,798.00			\$ 4,083,798.00
<b>Total Transport 2020 (SG67)</b>						<b>\$ 4,083,798.00</b>			<b>\$ 4,083,798.00</b>
Other Grants									
WI37X011									
<b>Total Other</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

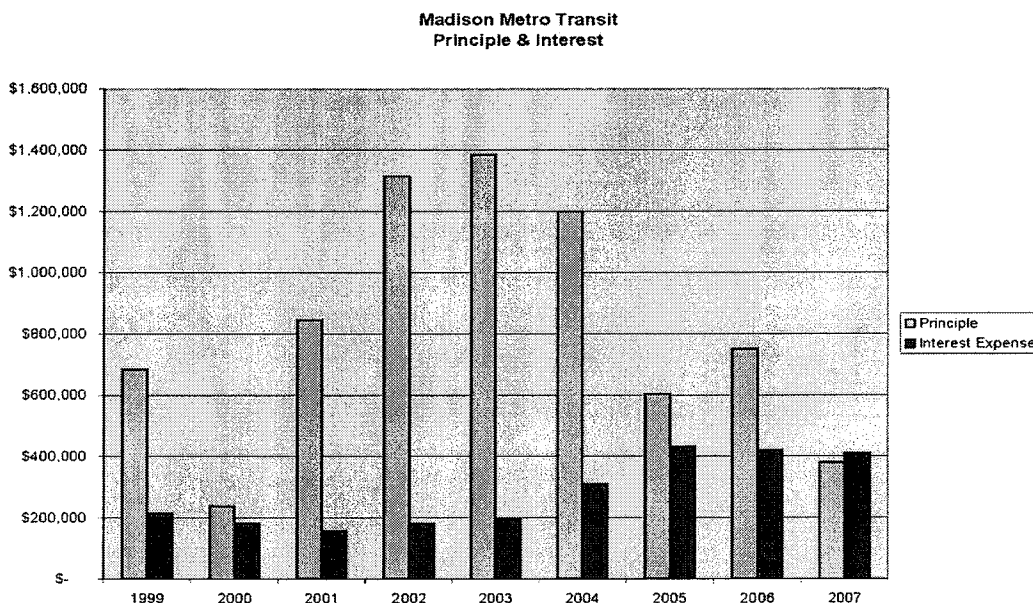
# METRO TRANSIT SYSTEM

## MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

**DRAFT**

### 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 triple A bond rating. The City carefully manages the borrowing and debt service.



### 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.

### 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

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Table 1

### Condensed Statements of Net Assets

	2007	2006	2005
Current and Other Assets	\$ 7,877,744	\$ 10,923,454	\$ 7,414,568
Capital Assets <sup>1</sup>	<u>36,762,144</u>	<u>39,043,836</u>	<u>39,470,159</u>
Total Assets	<u>44,639,888</u>	<u>49,967,290</u>	<u>46,884,727</u>
Long-Term Debt <sup>2</sup>	8,862,604	9,435,805	9,625,768
Other Liabilities	<u>7,939,411</u>	<u>11,250,926</u>	<u>7,424,645</u>
Total Liabilities	<u>16,802,015</u>	<u>20,686,731</u>	<u>17,050,413</u>
Invested in Capital Assets, Net of Related Debt <sup>3</sup>	32,410,205	34,102,845	34,547,560
Unrestricted (Deficit)	<u>(4,572,332)</u>	<u>(4,822,286)</u>	<u>(4,713,246)</u>
Total Net Assets	<u>\$ 27,837,873</u>	<u>\$ 29,280,559</u>	<u>\$ 29,834,314</u>

<sup>1</sup> See Page 26, Note 2 for details in this Audit report

<sup>2</sup> See Page 28, Note 4 for details in this Audit report

<sup>3</sup> See Page 24, Note 1 for details in this Audit report

# METRO TRANSIT SYSTEM

## MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

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Table 2

### Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2007	2006	2005
Operating Revenues	\$ 12,362,526	\$ 11,275,078	\$ 10,593,577
Depreciation Expense	5,417,067	5,492,831	5,562,700
Other Operating Expenses	44,765,538	43,012,377	40,550,177
Non-operating Expenses <sup>1</sup>	<u>409,243</u>	<u>420,395</u>	<u>431,205</u>
Total Expenses	<u>50,591,848</u>	<u>48,925,603</u>	<u>46,544,082</u>
Operating Subsidies <sup>1</sup>	23,970,612	23,182,850	22,397,531
Income Before Capital			
Contributions and Transfers	(14,258,710)	(14,467,675)	(13,552,974)
Capital Contributions <sup>2</sup>	3,774,243	5,085,122	5,317,290
Transfers	<u>9,041,781</u>	<u>8,828,798</u>	<u>7,332,271</u>
Changes in Net Assets	<u>(1,442,686)</u>	<u>(553,755)</u>	<u>(903,413)</u>
Beginning Net Assets	29,280,559	29,834,314	30,737,727
Ending Net Assets	<u>\$ 27,837,873</u>	<u>\$ 29,280,559</u>	<u>\$ 29,834,314</u>

<sup>1</sup> See Page 17 Statements of Revenues, Expenses and Changes in Net Assets for more detail

<sup>2</sup> 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

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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](mailto:ckamp@cityofmadison.com)

Respectfully submitted

Charles L. Kamp  
Metro Transit General Manager



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**Statements of Net Assets Follows**

# METRO TRANSIT SYSTEM

STATEMENTS OF NET ASSETS  
December 31, 2007 and 2006

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## ASSETS

	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 380,000	\$ -
Restricted cash - retiree health insurance escrow	203,768	134,135
Receivable from State of Wisconsin and FTA - capital and maintenance	1,386,056	5,773,464
Receivable from other governmental units	2,143,156	2,450,845
Accounts receivable	1,531,507	408,467
Materials and supplies	519,833	557,000
Prepaid expenses	491,063	460,558
Current portion of prepaid expense - land and tower lease	29,165	30,287
Total Current Assets	<u>6,684,548</u>	<u>9,814,756</u>
<b>NON-CURRENT ASSETS</b>		
Restricted cash - retiree health insurance escrow	915,833	802,170
Other Assets		
Prepaid expenses - land and tower lease	277,363	306,528
Capital Assets		
Transit plant in service	81,984,692	80,778,546
Accumulated depreciation	(45,261,551)	(41,777,115)
Construction work in progress	39,003	42,405
Total Non-Current Assets	<u>37,955,340</u>	<u>40,152,534</u>
Total Assets	<u>44,639,888</u>	<u>49,967,290</u>



## METRO TRANSIT SYSTEM

### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Years Ended December 31, 2007 and 2006

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	2007	2006
<b>OPERATING REVENUES</b>	<u>\$ 12,362,526</u>	<u>\$ 11,275,078</u>
<b>OPERATING EXPENSES</b>		
Employee compensation and benefits	32,553,008	31,354,998
Materials and supplies	4,519,946	4,449,464
Purchased services	6,854,688	6,544,473
Interagency charges	<u>837,896</u>	<u>663,442</u>
Total Operation and Maintenance Expenses	44,765,538	43,012,377
Depreciation expense	<u>5,417,067</u>	<u>5,492,831</u>
Total Operating Expenses	<u>50,182,605</u>	<u>48,505,208</u>
Operating Loss	<u>(37,820,079)</u>	<u>(37,230,130)</u>
<b>OPERATING SUBSIDIES</b>		
Federal subsidies	5,348,904	5,127,174
State operating subsidies	15,779,601	15,470,200
Other state subsidies	63,172	62,217
Local public subsidies	<u>2,778,935</u>	<u>2,523,259</u>
Total Operating Subsidies	<u>23,970,612</u>	<u>23,182,850</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest expense	<u>(409,243)</u>	<u>(420,395)</u>
Loss Before Contributions and Transfers	<u>(14,258,710)</u>	<u>(14,467,675)</u>
<b>CAPITAL CONTRIBUTIONS - CITY &amp; OTHER</b>	1,269,664	1,031,914
<b>CAPITAL CONTRIBUTIONS - FEDERAL &amp; STATE</b>	2,504,579	4,053,208
<b>TRANSFERS IN - MPO</b>	9,202	9,534
<b>TRANSFERS IN - CITY OPERATING SUBSIDIES</b>	<u>9,032,579</u>	<u>8,819,264</u>
Total Contributions and Transfers	<u>12,816,024</u>	<u>13,913,920</u>
<b>CHANGE IN NET ASSETS</b>	(1,442,686)	(553,755)
NET ASSETS - Beginning of Year	<u>29,280,559</u>	<u>29,834,314</u>
<b>NET ASSETS - End of Year</b>	<u>\$ 27,837,873</u>	<u>\$ 29,280,559</u>

See accompanying notes to financial statements.

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**Statements of Cash Flows Follows**

**METRO TRANSIT SYSTEM**

STATEMENTS OF CASH FLOWS  
December 31, 2007 and 2006

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	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 11,279,436	\$ 10,558,968
Paid to suppliers for goods and services	(21,794,015)	(20,950,990)
Paid to employees for services	(22,410,956)	(21,528,085)
Cash Flows from Operating Activities	<u>(32,925,535)</u>	<u>(31,920,107)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Received from (paid to) city for implicit financing	(3,883,238)	3,883,238
Operating subsidies received - federal	9,202,900	301,997
Operating subsidies received - state	15,841,549	15,493,845
Operating subsidies received - local	3,164,962	2,756,781
Operating transfer from city	9,032,579	8,819,264
Cash Flows from Noncapital Financing Activities	<u>33,358,752</u>	<u>31,255,125</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Debt retired	(953,849)	(939,963)
Interest paid	(416,139)	(424,593)
Proceeds from issuance of general obligation debt	380,648	750,000
Acquisition and construction of capital assets	(3,135,375)	(5,066,509)
Capital contributions - city and other	1,269,664	1,031,914
Capital contributions - federal and state	2,985,130	3,573,462
Cash Flows From Capital and Related Financing Activities	<u>130,079</u>	<u>(1,075,689)</u>
<b>Net Change in Cash and Cash Equivalents</b>	563,296	(1,740,671)
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>936,305</u>	<u>2,676,976</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,499,601</u>	<u>\$ 936,305</u>

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	<u>2007</u>	<u>2006</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH</b>		
<b>FLOW FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (37,820,079)	\$ (37,230,130)
Noncash items included in operating loss		
Depreciation expense	5,417,067	5,492,831
Changes in Assets and Liabilities		
Accounts receivable	(1,068,955)	(141,831)
Materials and supplies	37,167	14,754
Prepaid expenses	(218)	(5,399)
Accrued payroll liabilities	23,687	53,863
Accrued compensated absences	57,183	602,658
Unfunded OPEB liability	409,668	-
Accounts payable	30,721	(135,001)
Other deferred credits	(11,776)	(571,852)
	<u>(11,776)</u>	<u>(571,852)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ (32,925,535)</u>	<u>\$ (31,920,107)</u>
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO</b>		
<b>STATEMENT OF NET ASSETS ACCOUNTS</b>		
Cash	\$ 380,000	\$ -0-
Restricted Cash - Retiree Health Insurance Escrow	<u>1,119,601</u>	<u>936,305</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,499,601</u>	<u>\$ 936,305</u>

See accompanying notes to financial statements.

# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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, Village of Shorewood Hills, the Madison Metropolitan School District, Edgewood College, Madison Area Technical College, St. Mary's Hospital, Dane County 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, 2007 and 2006

**DRAFT**

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

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### *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, 2007 and 2006

**DRAFT**

## 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 \$15,683 and \$19,482 are included in 2007 and 2006, 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 2007 and 2006.

#### **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 12/31/07	Balance 12/31/06	Years
Land	\$ 2,753,812	\$ 2,753,812	
Building	11,502,063	11,472,331	5 – 40
Curb and land improvements	6,383,440	6,384,000	5
Revenue equipment	51,296,668	50,285,696	8 – 20
Service vehicles	523,765	523,765	4 – 5
Shop and garage equipment	1,480,762	1,503,702	3 – 10
Furniture and office equipment	1,381,382	1,289,699	3 – 10
Miscellaneous and farebox	6,662,800	6,565,541	3 – 15
Total Capital Assets	<u>\$81,984,692</u>	<u>\$ 80,778,546</u>	

# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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

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### *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, 2007 and 2006 is \$ 3,322,244 and \$3,463,040, 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 66. The total amount outstanding at December 31, 2007 and 2006 to be paid in the future is approximately \$1,119,601 and \$936,305, 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***

At December 31, 2007 and 2006 deferred credits related solely to advanced ticket and pass sales.

# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006



**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's restricted assets equal liabilities payable from those assets, therefore there are no 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:

	2007	2006
Plant in service	\$ 81,984,692	\$ 80,778,546
Accumulated depreciation	(45,261,551)	(41,777,115)
Construction work in progress	39,003	42,405
Sub-Totals	36,762,144	39,043,836
Less: Capital related debt		
Current portion of general obligation bonds	820,134	901,674
Long-term portion of capital related general obligation bonds	3,672,067	4,111,553
Sub-Totals	4,492,201	5,013,227
Add unspent proceeds of capital-related debt included above	140,262	72,236
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 32,410,205	\$ 34,102,845

# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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

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### *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 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, 2007 and 2006

## DRAFT

### NOTE 2 – CHANGES IN CAPITAL ASSETS

A summary of changes in Metro capital assets for 2007 and 2006 follows:

	Balance 1/1/07	Additions	Retirements	Adjustments	Balance 12/31/07
Capital assets, not being depreciated					
Land	\$ 2,753,812	\$ -	\$ -	\$ -	\$ 2,753,812
Capital assets being depreciated					
Building and improvements	11,472,331	33,576	(3,845)	-	11,502,062
Curb and land improvements	6,384,000	-	(559)	-	6,383,441
Revenue vehicles	50,285,696	2,874,515	(1,863,543)	-	51,296,668
Service vehicles	523,765	-	-	-	523,765
Shop and garage equipment	1,503,702	14,040	(36,980)	-	1,480,762
Office equipment	1,289,699	119,388	(27,704)	-	1,381,383
Miscellaneous and farebox	6,565,541	97,258	-	-	6,662,799
Total Capital Assets Being Depreciated	78,024,734	3,138,777	(1,932,631)	-	79,230,880
Total Capital Assets	80,778,546	3,138,777	(1,932,631)	-	81,984,692
Less: Accumulated depreciation					
Building and improvements	(6,788,932)	(383,047)	3,845	-	(7,168,134)
Curb and land improvements	(3,848,362)	(415,328)	559	-	(4,263,131)
Revenue vehicles	(26,999,308)	(3,672,838)	1,863,543	-	(28,808,603)
Service vehicles	(499,812)	(21,428)	-	-	(521,240)
Shop and garage equipment	(1,410,539)	(48,548)	36,980	-	(1,422,107)
Office equipment	(736,730)	(145,668)	27,704	(207)	(854,901)
Miscellaneous and farebox	(1,493,432)	(730,003)	-	-	(2,223,435)
Total Accumulated Depreciation	(41,777,115)	(5,416,860)	1,932,630	(207)	(45,261,551)
Construction in progress	42,405	88,378	(91,780)	-	39,003
Net Transit System Plant	\$ 39,043,836				\$ 36,762,144

# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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### NOTE 2 – CHANGES IN CAPITAL ASSETS (cont.)

	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	80,778,546	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, 2007 and 2006

# DRAFT

### **NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

The following is a schedule of interfund balances for the years ended December 31, 2007 and 2006:

Due To	Due From	2007		2006	
		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, 2007 and 2006.

To	From	2007		2006	
		Amount	Principal Purpose	Amount	Principal Purpose
Metro	City of Madison	\$ 9,032,579	City operating subsidy	\$ 8,819,264	City operating subsidy
Metro	City of Madison	\$9,202	Local share of MPO grant	9,534	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 12/31/07
Promissory note	5-1-97	5-1-07	5.10 - 5.60%	1,196,050	-
Promissory note	5-1-98	5-1-08	4.05 - 4.35%	802,560	80,256
Promissory note	7-1-99	7-1-09	4.00 - 4.45%	682,900	136,580
Promissory note	7-1-00	7-1-10	5.25 - 5.50%	238,000	71,400
Promissory note	8-1-01	8-1-11	4.00 - 4.38%	844,400	337,760
Promissory note	8-1-02	8-1-12	3.00 - 4.00%	1,314,400	657,200
Promissory note	9-15-03	9-1-13	2.00 - 4.00%	1,385,000	831,000
Promissory note	10-1-04	10-1-14	3.00 - 3.65%	1,200,000	840,000
Promissory note	10-1-05	10-1-15	3.50 - 5.00%	603,000	482,400
Promissory note	10-1-06	10-1-16	4.00%	750,000	674,957
Promissory Note	10-1-07	10-1-17	4.00 - 5.00%	380,648	380,648
Total					<u>\$ 4,492,201</u>

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



## METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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

Year	5-1-98		7-1-99		7-1-00		8-1-01		8-1-02			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	80,256	1,745	68,290	4,592	23,800	3,273	84,400	14,334	131,440	24,152		
2009	-	-	68,290	1,537	23,800	1,934	84,400	10,872	131,440	19,880		
2010	-	-	-	-	23,800	565	84,400	7,283	131,440	15,280		
2011	-	-	-	-	-	-	84,400	3,693	131,440	10,351		
2012									131,440	5,258		
<b>Totals</b>	<b>\$ 80,256</b>	<b>\$ 1,745</b>	<b>\$ 136,580</b>	<b>\$ 6,129</b>	<b>\$ 71,400</b>	<b>\$ 5,772</b>	<b>\$ 337,760</b>	<b>\$ 36,182</b>	<b>\$ 657,200</b>	<b>\$ 74,921</b>		

Year	9-15-03		10-1-04		10-1-05		10-1-06		10-1-07		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	138,500	29,258	120,000	26,580	60,300	20,804	75,043	26,998	38,065	15,987	820,134	167,723
2009	138,500	25,103	120,000	22,980	60,300	17,788	75,043	23,997	38,065	14,084	739,878	138,175
2010	138,500	20,948	120,000	19,380	60,300	14,774	75,043	20,995	38,065	12,181	671,588	111,406
2011	138,500	16,274	120,000	15,780	60,300	11,758	75,043	17,993	38,065	10,658	647,788	86,507
2012	138,500	11,080	120,000	12,180	60,300	9,648	75,043	14,991	38,065	9,136	563,348	62,293
2013	138,500	5,540	120,000	8,340	60,300	7,236	75,042	11,990	38,065	7,613	431,907	40,719
2014	-	-	120,000	4,380	60,300	4,824	74,900	8,988	38,065	6,090	293,265	24,282
2015	-	-	-	-	60,300	2,412	74,900	5,992	38,065	4,568	173,265	12,972
2016	-	-	-	-	-	-	74,900	2,996	38,064	3,045	112,964	6,041
2017	-	-	-	-	-	-	-	-	38,064	1,523	38,064	1,523
<b>Totals</b>	<b>\$ 831,000</b>	<b>\$ 108,203</b>	<b>\$ 840,000</b>	<b>\$ 109,620</b>	<b>\$ 482,400</b>	<b>\$ 89,244</b>	<b>\$ 674,957</b>	<b>\$ 134,940</b>	<b>\$ 380,648</b>	<b>\$ 84,885</b>	<b>\$ 4,492,201</b>	<b>\$ 651,641</b>

The 1997 bonds were paid off in 2007.

## METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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### 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 12/31/07
May 1, 1997	Capital expenses	May 1, 2007	5.0 – 6.0%	\$ 21,138	\$ -
July 1, 2004	Pay off WRS Prior Service Liability	March 15, 2024	5.25%	4,551,081	4,370,403

Advance from other funds debt service requirements to maturity follows:

Year	Principal	Interest	Total
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	\$ 4,370,403	\$ 2,698,435	\$ 7,068,838

The 1997 advance was paid off in 2007.

## METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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

Metro's long-term obligation activity for the years ended December 31, 2007 and 2006 is as follows:

	Balance 1/1/07	Additions	Reductions	Balance 12/31/07	Due Within One Year
General obligation notes	\$ 5,013,227	\$ 380,648	\$ 901,674	\$ 4,492,201	\$ 820,134
Advance from other funds	4,422,578	-	52,175	4,370,403	64,170
Retiree health insurance escrow	936,305	342,718	159,422	1,119,601	203,768
Accrued sick leave	3,463,040	260,731	401,527	3,322,244	116,728
Unfunded OPEB liability	-	851,741	442,073	409,668	-
Deferred revenue-land and tower lease	304,367	-	27,928	276,439	26,871
Totals	\$ 14,139,517	\$ 1,835,838	\$ 1,984,798	\$ 13,990,556	\$1,231,671

	Balance 1/1/06	Additions	Reductions	Balance 12/31/06	Due Within One Year
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	333,417	-	29,050	304,367	27,928
Totals	\$ 13,755,872	\$ 1,622,472	\$ 1,238,827	\$ 14,139,517	\$ 1,247,323

# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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## NOTE 5 – OPERATING SUBSIDIES

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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, and the Village of Shorewood Hills. Metro has additional contracts with the University of Wisconsin, Madison Area Technical College, Madison Metropolitan School District, Edgewood College, St. Mary's Hospital and Dane County. Contracts are executed with all entities defining subsidy amounts and procedures.

The following are the operating subsidies for the years 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Federal	\$ 5,348,904	\$ 5,127,174
State	15,779,601	15,470,200
Other state subsidies	63,172	62,217
Local public subsidies	2,778,935	2,523,259
City of Madison	9,032,579	8,819,264
Dane County	2,875,728*	2,653,136*

\* 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.

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

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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, 2007 and 2006

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

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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.

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## NOTE 7 – EMPLOYEES RETIREMENT SYSTEMS

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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 5.9% for 2007, 5.8% for 2006 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, 2007		
	2007	2006	2005
Total Covered Metro Payroll	<u>\$ 22,051,677</u>	<u>\$ 20,823,995</u>	<u>\$ 20,698,310</u>
Total Required Contributions	<u>\$ 2,337,478</u>	<u>\$ 1,978,279</u>	<u>\$ 1,945,641</u>
Total Required Contributions (%)	<u>10.6%</u>	<u>9.5%</u>	<u>9.4%</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, 2007 and 2006.

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## NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

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

# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006



**NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (cont.)**

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

The city's annual other postemployment 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 the year, the amount actually contributed to plan, and changes in the city's net OPEB obligation to the Retiree Health Plan:

	<u>Entire City</u>	<u>Metro</u>
Annual required contribution	\$ 5,255,087	\$ 851,741
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	5,255,087	851,741
Contributions made	<u>2,113,303</u>	<u>442,073</u>
Increase in net OPEB obligation (asset)	3,141,784	\$ 409,668
Net OPEB Obligation (Asset) - Beginning of Year	-	-
Net OPEB Obligation (Asset) - End of Year	<u>\$ 3,141,784</u>	<u>\$ 409,668</u>

The city's and Metro's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007 was as follows:

<b>City</b>		Percentage of	
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Liability</u>
December 31, 2007	\$ 5,255,087	\$2,113,303	\$3,141,784
<b>Metro</b>		Percentage of	
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Liability</u>
December 31, 2007	\$ 851,741	\$ 442,073	\$ 409,668

Prior year information is not available at this time.

# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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## NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

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The funded status of the plan (for the entire city) as of December 31, 2007, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 46,367,443
Actuarial value of plan assets	<u>3,032,738</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$ 43,334,705
Funded ratio (actuarial value of plan assets/AAL)	6.5%
Covered payroll (active plan members)	\$ 135,001,349
UAAL as a percentage of covered payroll	32.1%

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 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return and an annual healthcare cost trend rate of 11.0 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after eight years. Both rates include a 3.0 percent inflation assumption. The actuarial value of Retiree Health Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. 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, 2007, was 29 years.

Please see the City of Madison audit report for Required Supplementary Information related to the plan.

## METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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### NOTE 9 – RISK MANAGEMENT

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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 2007, Metro Transit was insured by Transit Mutual Insurance Corporation of Wisconsin ("TMI") for its automobile exposure. Metro Transit's policy with TMI had a policy period of January 1, 2007 to December 31, 2007 and contained a combined single limit of \$7,000,000 per accident. For its other liability coverages, Metro Transit was insured under the City of Madison's liability program with Wisconsin Municipal Mutual Insurance Company. Metro Transit's workers' compensation program is also included in the City's self-insured workers' compensation program which obtains excess coverage from WMMIC. Metro Transit's property exposures are insured under the City's property coverages through the Local Government Property Insurance Fund.

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 32.15%. A list of the other members is available in the TMI report.



# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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## **NOTE 10 – BASIS FOR EXISTING FARES**

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Current fares were made effective September 4, 2007 as approved by the Transit and Parking Commission.

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## **NOTE 11 – COMMITMENTS**

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In 2007 and 2006, 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 2007, Metro provided \$38,752 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 \$9,202, for a total of \$47,954.

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.

### ***RETIRED SENIOR VOLUNTEER PERSONS (RSVP) OF DANE COUNTY***

In 2007, Metro provided \$70,822 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 \$51,512 toward this program and donations of \$31,814 were received for a total expense of \$154,148. The Dane County share was recorded as revenue.

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.

### ***GROUP ACCESS SERVICE***

In 2007, Metro provided \$139,225 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 \$149,494 toward this program for a total expense of \$288,719. The Dane County share was recorded as revenue.

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.

# METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

**DRAFT**

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## **NOTE 11 – COMMITMENTS (cont.)**

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### ***PARATRANSIT SERVICE CONTRACTS***

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

### ***BUS CONTRACT***

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.

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## **NOTE 12 – MGE SUBSIDY FOR THE USE OF ULTRA LOW SULFUR DIESEL**

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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.

***DRAFT***

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

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

**DRAFT**

We have audited the financial statements of Metro Transit System (Metro) as of and for the year ended December 31, 2007, and have issued our report thereon dated July \_\_, 2008. 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 Metro as of and for the year ended December 31, 2007, 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’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  
July \_\_, 2008

# METRO TRANSIT SYSTEM

## OPERATING REVENUES AND EXPENSES December 31, 2007 and 2006

DRAFT

### OPERATING REVENUES

	2007	2006
<b>OPERATING REVENUES</b>		
Passenger Fares for Transit Services		
Farebox revenues	\$ 1,322,310	\$ 1,301,370
Adult ticket revenue	832,265	821,332
Student ticket revenue	377,687	347,808
Elderly and handicapped revenue	300,873	233,763
Monthly/Daily Pass revenue	1,039,933	1,043,530
Summer youth passes	21,390	19,930
Easy rider pass - all days	292,235	274,541
UW Student Unlimited Ride Pass agreement revenue	2,216,680	1,944,571
UW Routes 80-82 and 53	197,195	197,195
UW/UW Hospital Employee Unlimited Ride Pass agreement	1,179,762	997,997
Edgewood College Unlimited Ride Pass agreement	45,773	42,552
MMSD passes	663,045	521,890
MATC Unlimited Ride Pass agreement	343,533	273,093
St Marys Unlimited Ride Pass agreement	32,801	19,295
City of Madison Employee Unlimited Ride Pass agreement	99,327	70,777
Supplemental taxi revenue	71,255	67,677
Group Access Service	11,878	14,528
Total Passenger Fares for Transit Service	9,047,942	8,191,849
Other Operating Revenues		
Advertising revenue	306,848	256,414
Sale of scrap and parts	63,635	10,926
Other operating revenue - New Year's Eve contributions and other	68,373	162,753
Other operating revenue - Dane County - MA Waiver	2,430,318	2,193,249
Other operating revenue - Dane County - Elderly & Handicapped	131,690	109,105
Other operating revenue - Dane County - Group Access Service	149,494	158,002
Other operating revenue - Dane County - Group RSVP Service	51,512	78,609
Other operating revenue - Dane County - Exceptional Rides	93,434	94,891
Other operating revenue - Dane County - Highway (Marketing)	19,280	19,280
Total Other Operating Revenues	3,314,584	3,083,229
Total Operating Revenues	12,362,526	11,275,078
<b>OPERATING EXPENSES</b>		
Operation and Maintenance Expenses		
Employee compensation and benefits		
Salaries and wages	22,410,956	21,528,085
Pensions and benefits	10,142,052	9,826,913
Total Employee Compensation and Benefits	32,553,008	31,354,998
Materials and supplies	4,519,946	4,449,464
Purchased services	6,854,688	6,544,473
Interagency charges	837,896	663,442
Total Operation and Maintenance Expenses	44,765,538	43,012,377
Depreciation expense	5,417,067	5,492,831
Total Operating Expenses	50,182,605	48,505,208
NET OPERATING LOSS	\$ (37,820,079)	\$ (37,230,130)

## METRO TRANSIT SYSTEM

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS  
December 31, 2007 and 2006

DRAFT

2007                      2006

### REVENUES

401.00	Passenger fares for transit service	\$ 9,047,942	\$ 8,191,849
402.00	Special transit fares - New Year's Eve contributions and other	11,019	17,956
402.10	Service charges, NSF charges, etc.	57,354	144,797
406.00	Auxiliary transportation revenue - advertising	306,848	256,414
407.10	Contra-expense for scrap and parts	63,635	10,926
409.10	Local public subsidies	2,778,935	2,523,259
409.30	City of Madison operating subsidy	9,032,579	8,819,264
409.40	Dane County specialized transportation programs	2,875,728	2,653,136
409.99	MPO Local Subsidy	9,202	9,534
411.00	State cash grants and reimbursements	15,842,773	15,532,417
413.00	Federal cash grants and reimbursements	<u>5,348,904</u>	<u>5,127,174</u>
	Total Eligible Revenues	<u>45,374,919</u>	<u>43,286,726</u>

### EXPENSES - BY OBJECT CLASS TOTAL

501.01	Operators' salaries and wages	12,303,788	11,850,066
501.02	Other salaries and wages	6,429,786	6,035,560
502.00	Fringe benefits	13,819,784	13,558,947
503.00	Services	546,052	477,410
504.01	Fuel and lubricants	3,321,304	3,274,176
504.02	Tires and tubes	156,923	150,957
504.99	Other materials and supplies	1,213,741	1,122,810
505.00	Utilities	611,449	692,165
506.00	Casualty and liability costs	617,939	598,680
507.00	Taxes	48,109	4,546
508.00	Purchased transportation	4,697,679	4,440,227
509.00	Miscellaneous expense	93,351	77,812
511.00	Interest expense	409,243	420,395
512.00	Leases and rentals	67,736	65,579
513.00	Depreciation	(5,417,067)	5,492,831
	Less: Ineligible depreciation on fixed assets	5,417,067	(5,492,831)
516.00	Other Reconciling Items	<u>837,897</u>	<u>663,442</u>
	Total Eligible Expenses	<u>45,174,781</u>	<u>43,432,772</u>

NET INCOME (excluding capital contributions and depreciation  
on fixed assets)

\$ 200,138      \$ (146,046)

## METRO TRANSIT SYSTEM

### RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL RECOGNIZED REVENUES AND EXPENSES For the Year Ended December 31, 2007

DRAFT

Per WisDOT Guidelines

Revenues including subsidies and operating transfer		\$ 45,374,919
Less: Non-recognized revenues		
City operating transfer	\$ 9,032,579	
Local public subsidies	5,654,663	
MPO Local Subsidy	9,202	
Other federal subsidy	5,348,904	
State operating subsidy	15,842,773	
Nontransportation revenues		
Sale of scrap and parts	63,635	
Service charges, NSF charges, etc.	57,354	
Total Non-Recognized Revenues		<u>36,009,110</u>
WisDOT Eligible Operating Revenues		<u>\$ 9,365,809</u>
Total Expenses per statement including interest expense	\$ 50,591,848	
Add: Fixed assets eligible for operating assistance	<u>-</u>	
Total Expenses		\$ 50,591,848
Less: Non-recognized expenses		
Depreciation	5,417,067	
Interest expense	409,243	
Bad debts	(69)	
Offset of scrap sales and miscellaneous reimbursements	120,989	
Capital Maintenance Grant @ 100%	6,686,130	
Leases and rentals	67,736	
Interagency indirect charges without approved allocation plan (excludes MPO of \$47,954)	<u>789,943</u>	
Total WisDOT Non-Recognized Expenses		<u>13,491,039</u>
WisDOT Eligible Operating Expenses		<u>\$ 37,100,809</u>
WisDOT Recognized Deficit		\$ (27,735,000)
Less Operating revenues ineligible for federal assistance:		
Advertising revenue		<u>306,848</u>
Federal Recognized Deficit		<u>\$ (27,428,152)</u>



**METRO TRANSIT SYSTEM**

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS  
For the Year Ended December 31, 2007

**DRAFT**

**STATE FUNDS**

WisDOT Recognized Deficit		<u>\$ 27,735,000</u>
WisDOT Contract Amount		<u>\$ 15,779,601</u>
City of Madison and Other Local Subsidies	<u>\$ 14,696,444</u>	
5 Times Operating Subsidy		<u>\$ 73,482,220</u>
State Share - Least of the Three		<u>\$ 15,779,601</u>

**FEDERAL FUNDS**

Federally Recognized Deficit	<u>\$ 27,428,152</u>	
50% of Federal Deficit		<u>\$ 13,714,076</u>
Federal Recognized Deficit	<u>\$ 27,428,152</u>	
Less: State share	<u>(15,779,601)</u>	
Non-State Share		<u>\$ 11,648,551</u>
Maximum Federal Share Per Grant Award		<u>\$ 5,348,904</u>
Federal Share - Least of the Three		<u>\$ 5,348,904</u>

**SUMMARY OF FUNDING (2007 only)**

	<u>Received in 2007</u>	<u>Receivable 12/31/07</u>	<u>Totals</u>
Federal Operating Funds	\$ -	\$ -	\$ -
Federal Capital Maintenance	4,762,887	586,017	5,348,904
State Funds	15,779,601	-	15,779,601
Local Public Subsidies	2,073,140	705,795 *	2,778,935
City of Madison	<u>9,032,579</u>	<u>-</u>	<u>9,032,579</u>
Total Funding	<u>\$ 31,648,207</u>	<u>\$ 1,291,812</u>	<u>\$ 32,940,019</u>

\* Shown net of amount due to other communities of \$80,426.

June XX, 2008

Transit and Parking Commission  
City of Madison  
210 Martin Luther King, Jr. Blvd., Room 406  
Madison, WI 53710



Dear Commissioners:

This letter is to inform you of any comments or recommendations as part of our financial and single audits of the Metro Transit System for 2007 and 2006. The following recommendations we believe can improve the financial reporting and control systems of the transit system.

#### **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

##### ***NEW INTERNAL CONTROL AUDIT TESTING FOR 2007***

In 2006, the American Institute of Certified Public Accountants issued eight new auditing standards, #104-111 that changed the way auditors approach the 2007 audit process.

One of the new concepts that most affected governments is the adequacy of internal control documentation. Many governments do not have adequate written documentation of the internal control processes within their organization.

In the past, auditors had done some amount of high level documentation of internal control processes. On the other hand, governments should theoretically have all major processes documented in enough detail that another person could come in and fulfill the process requirements simply by following the documentation.

The major areas that usually need documentation are:

Cash Receipts	Capital Assets - Depreciations
Cash Disbursements	Capital Assets – Additions and Retirements
Receivables – Billings	Charter Bus Policy
Receivables – Collections	DBE Policies
Purchasing	Information Technology
Inventories	Financial Reporting
Payroll	Grant Accounting

Other than a computer software instruction manual, many governments had little written documentation covering these areas. Although Metro had documented many of its systems, this documentation had not been formally updated for several years.

In prior years we have been able to complete your audit without asking for such documentation. However, beginning with your calendar year 2007 audit, we were required to ask you for more complete documentation of your internal control systems. We provided you with forms and other resources to assist with meeting the new requirements.

**CURRENT YEAR COMMENTS AND RECOMMENDATIONS (cont.)**



***NEW INTERNAL CONTROL AUDIT TESTING FOR 2007 (cont.)***

As a result, your staff provided us with the internal control documentation we required. We then tested that information, evaluated your internal controls more than we have in the past, and determined our audit procedures based on where we felt the greatest risks were.

We will continue to update these documents every year to better develop audit procedures that are responsive to your specific risks.

**PRIOR YEAR COMMENTS AND RECOMMENDATIONS**

***MATERIALS AND SUPPLIES YEAR END ADJUSTMENT***

For each of the past three years there has been a significant adjustment to the financial records balance in materials and supplies at year end in order to reconcile the financial records with the physical records of parts on hand. This indicates that parts used are not consistently recorded and charged out. As the parts inventory may be financed with grant funding it is imperative that Metro have controls in place to ensure that parts used are charged appropriately and are used for Metro operations. We understand that management is aware of this and intends to look into this issue in 2007 with the implementation of a new inventory tracking program.

***STATUS 12/31/07***

There was a significant adjustment again in 2007 largely as the result of the implementation of a new inventory system. Management has been monitoring the new system and anticipates future annual adjustments to be on a smaller scale. Management also intends to have internal audit review the inventory processes during 2008 for best practices or possible enhancements.

***SIGNIFICANT GRANT RECEIVABLES AT YEAR END***

As of December 31, 2006, we noted significant grant receivables outstanding, resulting in a large cash deficit which was implicitly financed by the city. This was due to a delay in the submittal of draw reports to FTA. We understand that Metro had turnover this year, but timely receipt of funds is imperative to the stable financial position of Metro and the city.

***STATUS 12/31/07***

The 2007 grant draws were processed in a timely manner, resulting in an improved cash flow for Metro.

**INTERNAL CONTROLS**

In planning and performing our audit of the financial statements of the Metro Transit System as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

**DRAFT**

## **INTERNAL CONTROLS (cont.)**

Our consideration of the Metro's internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 the entity'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 the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- *Financial Reporting* – management did not provide the annual financial statements and footnotes such that the auditor had no significant changes to them. (see further information below)

### ***Financial Reporting***

In theory, a properly designed system of internal controls consists of enough people, with sufficient training, to process and record monthly transactions, as well as prepare a complete set of annual financial statements. However, while most municipal entities' staff do a good job of processing and recording monthly transactions, the reality is that very few have the background, training or time needed to prepare annual financial statements.

The definition of a material weakness in internal control includes consideration of the year end financial reporting process including the preparation of financial statements. In order for your municipality to avoid this type of material weakness, the system of internal controls would need to be able to prepare a complete set of year end financial statements with a very high level of accuracy such that there is only a remote likelihood that the auditor will discover a material change to the statements or footnotes. Thus, if the auditor discovers a material change, by definition, the system of internal control over financial reporting must have a material weakness.

This high level of internal control over financial reporting can be a difficult task for governments. As opposed to large private companies, most governments operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to assist in year end financial reporting. As this is the case with Metro, we are now required to inform you that this is a material weakness in your internal controls.

We welcome any comments or questions you have regarding your system of internal controls.

**DRAFT**

## **COMMUNICATIONS TO AUDIT COMMITTEE (TRANSIT COMMISSION)**

We have audited the financial statements of the Metro Transit System of Madison, Wisconsin for the years ended December 31, 2007 and 2006, and have issued our report thereon dated July \_\_, 2008. Professional standards require that we provide you with the following information related to our audit.

### ***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT GUIDELINES***

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Metro Transit System of Madison's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal or major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Guidelines.

As part of obtaining reasonable assurance about whether Metro Transit System of Madison'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. Also, in accordance with OMB Circular A-133 and the State Single Audit Guidelines, we examined, on a test basis, evidence about Metro's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State Single Audit Guidelines applicable to each of its major federal and state programs for the purpose of expressing an opinion on Metro's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Metro's compliance with those requirements.

### ***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

### ***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to the city council in our planning letter.



**COMMUNICATIONS TO AUDIT COMMITTEE (TRANSIT COMMISSION) (cont.)**

***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

***ACCOUNTING POLICIES***

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Metro Transit System are described in Note 1 to the financial statements. As described in the footnotes to the financial statements, during 2007 Metro, along with the City of Madison, adopted the provisions of Governmental Accounting Standards (GASB Statement) No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. We noted no transactions entered into by the Metro Transit System during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

***ACCOUNTING ESTIMATES***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The estimate of the Other Postemployment Benefits (OPEBs) liability, which is based upon information provided to actuaries contracted with by the City.
- The estimate of accrued sick leave which is based on a historical usage analysis completed by the City.

We evaluated the key factors and assumptions used to develop all of these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

***FINANCIAL STATEMENT DISCLOSURES***

The disclosures in the financial statements are neutral, consistent, and clear.

***AUDIT ADJUSTMENTS***

Professional standards require us to accumulate all known and likely misstatement identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

**DRAFT**

**COMMUNICATIONS TO AUDIT COMMITTEE (TRANSIT COMMISSION) (cont.)**

***AUDIT ADJUSTMENTS (cont.)***

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Metro Transit System's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Metro, either individually or in the aggregate, indicate matters that could have a significant effect on the Metro's financial reporting process. In addition, the attached schedule summarized uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

***INDEPENDENCE***

We are not aware of any relationships between Virchow, Krause & Company, LLP and Metro Transit System of Madison that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of for the year ended December 31, 2007, Virchow, Krause & Company, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the Metro and provided no services to the Metro other than services provided in connection with the audit of the current year's financial statements and the following:

- Financial statement preparation assistance

Transit and Parking Commission  
City of Madison

July \_\_, 2008  
Page 7



**COMMUNICATIONS TO AUDIT COMMITTEE (TRANSIT COMMISSION) (cont.)**

***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Metro Transit System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Transit and Parking Commission and management and is not intended to be, and should not be, used by anyone other than the specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

**CLOSING COMMENT**

Thank you for allowing us to be of service to the City of Madison and its transit system. We also wish to thank your staff for their cooperation and assistance during the audit process. If you have any questions on our comments and recommendations, please contact us.

Sincerely,

VIRCHOW, KRAUSE & COMPANY, LLP

JCA/jas





**METRO TRANSIT SYSTEM**

SUMMARY OF PASSED ADJUSTING JOURNAL ENTRIES  
December 31, 2007 and 2006

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<u>Description</u>	<u>2007</u>		
	Financial Statements Effect - <u>Increase (Decrease) to Financial Statement</u>		
	Total	Total	Net
	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>
Allocation of Route 89 costs to parking utility.	\$ 65,371	\$ -	\$ 65,371