

METRO TRANSIT SYSTEM

An Enterprise Fund of the
City of Madison, Wisconsin

FINANCIAL STATEMENTS

December 31, 2010 and 2009

METRO TRANSIT SYSTEM

An Enterprise Fund of the City of Madison, Wisconsin

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Metro Transit System, an enterprise fund of the City of Madison, Wisconsin as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of Metro Transit System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metro Transit System as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the Honorable Mayor and Common Council
Metro Transit System

The Management's Discussion and Analysis on pages 3 through 15 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. GASB reporting standards limit the disclosure of condensed financial statements in the Management's Discussion and Analysis in this instance to three years. Management has elected to include more information in the Management's Discussion and Analysis than is required by the standards. We have applied certain limited procedures 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.

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

Our 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.

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause LLP". The signature is written in a cursive, flowing style.

Madison, Wisconsin
June 30, 2011

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

The following report of Metro Transit's activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ended December 31, 2010 and 2009.

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

Mission

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

Metro provides extensive fixed route and ADA paratransit service in a 72 square mile regional service area with a population of 237,433 and also provides contributions to Dane County for the delivery of Group Access Services (providing transportation of the elder to meal-sites), Exceptional Rides Services and RSVP programs in the Metro service area. Metro is an Enterprise Fund of the City of Madison. Local investment partners are the Cities of Fitchburg, Middleton, and Verona, Town of Madison, Madison Area Technical College, Madison Metropolitan School District, the University of Wisconsin-Madison and the Village of Shorewood Hills. Unlimited ride pass program participants include the UW-Madison, MATC, Edgewood College, St. Mary's and Meriter Hospitals and the City of Madison.

Annual Overview

In 2010, Metro's bus ridership was the highest in 30 years, and the 2nd highest on record! The year ended with 13,623,461 rides, up 0.3% from 13,588,426 in 2009. The highest ridership in Metro's history was 13,953,237 in 1979. This was especially noteworthy given the 33% increase in cash fares in 2009, and given that bus ridership in transit systems across the United States dropped 2.4% in 2010 primarily to sluggish economic conditions.

2010 was the first full year of the fare increase, and passenger revenues were up 7.3% from \$10,329,265 in 2009 to \$11,084,076 in 2010.

Another important accomplishment was the 36% drop in driver overtime hours compared to 2009. Driver overtime costs decreased from \$1,303,600 to \$821,700, a drop of \$481,900. Contributing factors included changes to how extra work is managed, authorization to hire 15 additional drivers, and late in the year, approved changes in the labor contract allowing more flexibility in using part time drivers and work assignment rules.

METRO TRANSIT SYSTEM

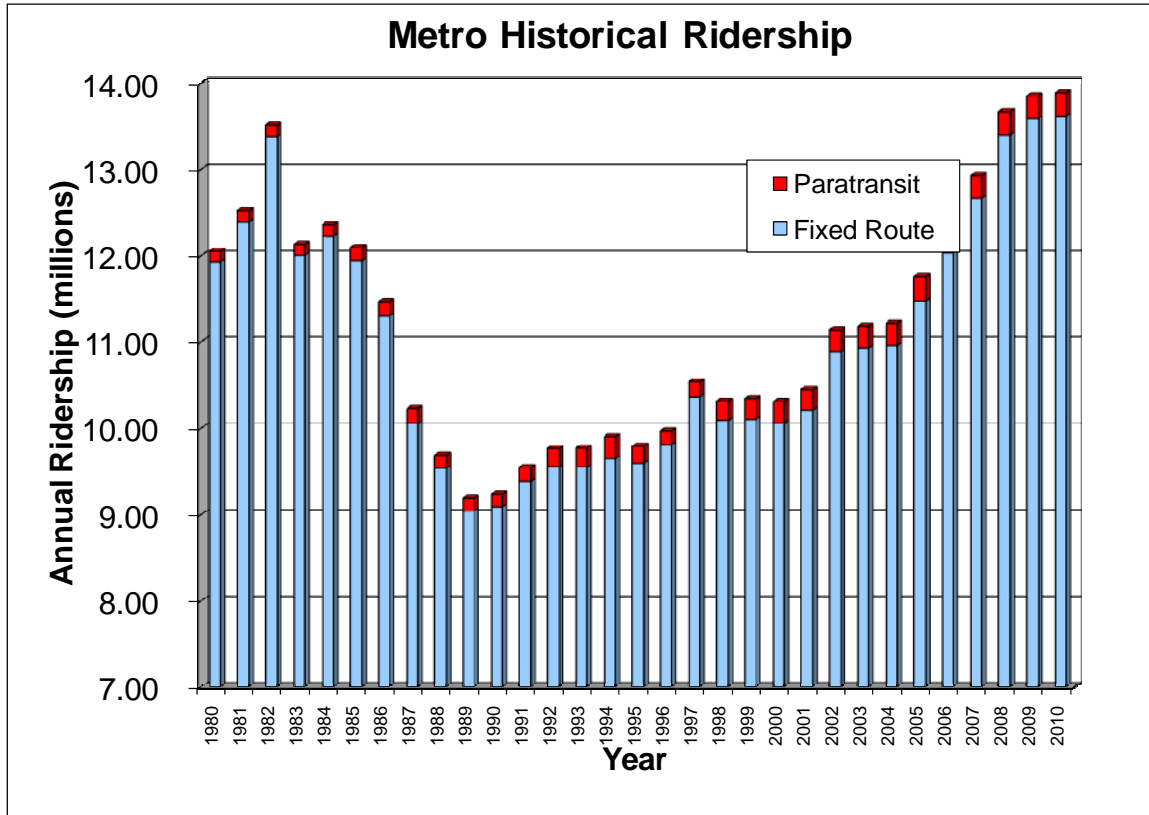
MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT

2010 also saw a modest but important drop in the total number of preventable and chargeable accidents, from 86 in 2009 to 80. Factors in this improvement include the use of cameras to coach employees on avoiding accidents and refresher training for drivers on safety.

The investment in police resources at the South Transfer Point had a substantive impact. After a high of 425 police calls in 2008, the 2010 figure of 226 represents a 47% decrease. Metro continues to work with the Madison police, the school district, and the Mayor’s office to develop strategies to improve security and in turn provide a more reliable and comfortable ride for our passengers on our buses and at all transfer points.

Metro added 14 additional hybrid buses to the fleet in the summer of 2010, bringing the total number to 19 out of a fleet of 200 buses. The hybrid buses continued to perform at 20% or better in fuel economy, an especially important result given fuel prices that are approaching \$4 per gallon, and higher.

A new “commute” card program was initiated in 2010 for small businesses and non-profits modeled after the popular “unlimited ride pass” program for large institutions like UW and MATC. In the first year of the program, over 70 groups signed up for the new card program, including one neighborhood association. All of these new participants generated a total of 530 separate riders using it by December, taking over 44,000 rides in 2010.



METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

2010 Financial Highlights

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

Madison Metro Transit Income Statement For the Year Ended December 31, 2010							
	All Modes		Fixed Route		Paratransit		
	Actual	Budget	Actual	Budget	Actual	Budget	
Revenue							
Farebox	\$ 1,296,772	\$ 1,542,800	\$ 1,265,319	\$ 1,511,944	\$ 31,453	\$ 30,856	
Passes & Tickets	\$ 4,479,422	\$ 4,692,800	\$ 4,210,138	\$ 4,359,400	\$ 269,284	\$ 333,400	
Unlimited Ride Programs	\$ 5,297,317	\$ 5,072,400	\$ 5,262,177	\$ 5,038,873	\$ 35,140	\$ 33,527	
Passenger Revenue	\$ 11,073,511	\$ 11,308,000	\$ 10,737,634	\$ 10,910,217	\$ 335,877	\$ 397,783	
County Programs	\$ 3,701,707	\$ 3,414,500	\$ 19,280	\$ 19,280	\$ 3,682,427	\$ 3,395,220	
Federal Operating Assistance	\$ 6,902,527	\$ 6,935,600	\$ 6,097,971	\$ 6,103,328	\$ 804,556	\$ 832,272	
State Operating Assistance	\$ 17,496,400	\$ 17,496,400	\$ 15,406,736	\$ 15,396,832	\$ 2,089,664	\$ 2,099,568	
Local Subsidies	\$ 2,693,437	\$ 3,010,000	\$ 2,439,986	\$ 2,709,000	\$ 253,451	\$ 301,000	
Other Subsidies	\$ 17,413	\$ 17,000	\$ 17,413	\$ 17,000	\$ -	\$ -	
Advertising	\$ 475,375	\$ 420,000	\$ 475,375	\$ 420,000	\$ -	\$ -	
Miscellaneous	\$ 113,878	\$ 86,000	\$ 113,878	\$ 86,000	\$ -	\$ -	
Total Revenue	\$ 42,474,248	\$ 42,687,500	\$ 35,308,273	\$ 35,661,657	\$ 7,165,975	\$ 7,025,843	
Expenditures							
Salaries	\$ 24,789,305	\$ 24,880,000	\$ 23,266,470	\$ 23,387,200	\$ 1,522,835	\$ 1,492,800	
Benefits	\$ 12,212,205	\$ 10,842,300	\$ 11,488,414	\$ 10,191,762	\$ 723,791	\$ 650,538	
Utilities/Telephone	\$ 513,413	\$ 790,100	\$ 486,757	\$ 734,793	\$ 26,657	\$ 55,307	
Repairs & Maint B&G	\$ 100,455	\$ 99,300	\$ 95,455	\$ 92,349	\$ 5,000	\$ 6,951	
Repairs & Maint Equip	\$ 291,884	\$ 292,400	\$ 275,051	\$ 271,932	\$ 16,833	\$ 20,468	
Rentals	\$ 170,177	\$ 160,700	\$ 156,914	\$ 149,451	\$ 13,263	\$ 11,249	
Employee Services	\$ 55,756	\$ 49,800	\$ 51,143	\$ 46,314	\$ 4,613	\$ 3,486	
Insurance & Financial	\$ 998,261	\$ 1,056,700	\$ 881,627	\$ 929,896	\$ 116,634	\$ 126,804	
Purchased Transportation	\$ 5,109,124	\$ 5,060,000	\$ -	\$ -	\$ 5,109,124	\$ 5,060,000	
Other Services	\$ 358,058	\$ 333,500	\$ 356,420	\$ 310,155	\$ 1,638	\$ 23,345	
Office Supplies	\$ 62,492	\$ 60,900	\$ 59,250	\$ 56,637	\$ 3,242	\$ 4,263	
Equipment Supplies	\$ 942,013	\$ 1,085,700	\$ 903,260	\$ 1,009,701	\$ 38,753	\$ 75,999	
Bldg & Const Supplies	\$ 105,335	\$ 34,600	\$ 97,335	\$ 32,178	\$ 8,000	\$ 2,422	
Fuels, Oils & Lubricants	\$ 2,845,385	\$ 2,799,200	\$ 2,773,749	\$ 2,715,224	\$ 71,637	\$ 83,976	
Other Supplies	\$ 176,204	\$ 186,000	\$ 169,319	\$ 172,980	\$ 6,885	\$ 13,020	
Interdepartmental Charges	\$ 793,575	\$ 715,700	\$ 733,575	\$ 665,601	\$ 60,000	\$ 50,099	
Depreciation	\$ 6,089,482	\$ 5,500,000	\$ 5,554,216	\$ 5,115,000	\$ 535,265	\$ 385,000	
Interest & Bad Expenses	\$ 406,204	\$ 404,413	\$ 365,583	\$ 376,104	\$ 40,620	\$ 28,309	
Total Expenses	\$ 56,019,329	\$ 54,351,313	\$ 47,714,538	\$ 46,257,277	\$ 8,304,790	\$ 8,094,036	
Income(Deficit)	\$ (13,545,081)	\$ (11,663,813)	\$ (12,406,265)	\$ (10,595,620)	\$ (1,138,816)	\$ (1,068,193)	
Less: Depreciation	\$ (6,089,482)	\$ (5,500,000)	\$ (5,554,216)	\$ (5,115,000)	\$ (535,265)	\$ (385,000)	
Less: Unfunded OPEB	\$ (446,662)	\$ -	\$ (401,996)	\$ -	\$ (44,666)	\$ -	
Less: Loss on asset disposal	\$ (23,242)	\$ -	\$ (23,242)	\$ -	\$ -	\$ -	
Debt	\$ 894,864	\$ 894,784	\$ 884,211	\$ 867,940	\$ 10,653	\$ 26,844	
Plus Prpd lease local share	\$ (2,168)	\$ -	\$ (2,168)	\$ -	\$ -	\$ -	
Fixed Assets	\$ 182,090	\$ 403,000	\$ 182,090	\$ 403,000	\$ -	\$ -	
Federal Portion of Fixed Assets	\$ (146,707)	\$ (322,400)	\$ (146,707)	\$ (322,400)	\$ -	\$ -	
Total Expenditures(City)	\$ 50,388,022	\$ 49,826,697	\$ 42,652,510	\$ 42,090,817	\$ 7,735,512	\$ 7,735,880	
Added To/(Taken From)Reserves	\$ (769,309)	\$ 3,100	\$ (692,249)	\$ 3,100	\$ (77,060)	\$ -	
Income(Deficit) (City)	\$ (7,913,774)	\$ (7,139,197)	\$ (7,344,237)	\$ (6,429,160)	\$ (569,537)	\$ (710,037)	

METRO TRANSIT SYSTEM

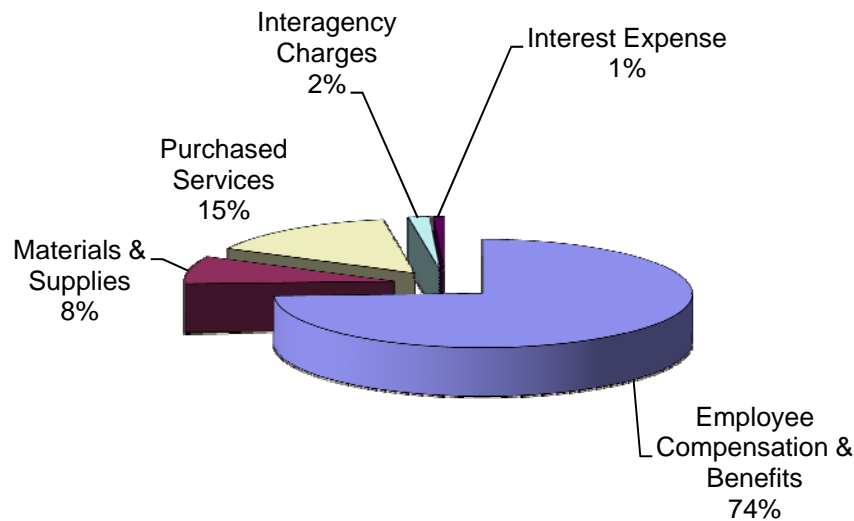
MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT

Metro drew upon its contingent reserve in the amount of \$769,309 in 2010 to balance revenues and expenses. The following table shows Metro’s contingent reserve balances and changes in those balances over the past six years.

Year	Beginning Balance	Reserves +/-	Ending Balance
2005	\$959,429	(\$690,000)	\$269,429
2006	\$269,429	(\$146,045)	\$123,384
2007	\$123,384	\$609,837	\$733,221
2008	\$733,221	(\$254,975)	\$478,246
2009	\$478,246	\$388,710	\$866,956
2010	\$866,956	(\$769,309)	\$97,647

As can be seen from the following chart, employee compensation and benefits accounted for 74% of total expenses excluding depreciation in 2010.

2010 Expenses excluding Depreciation

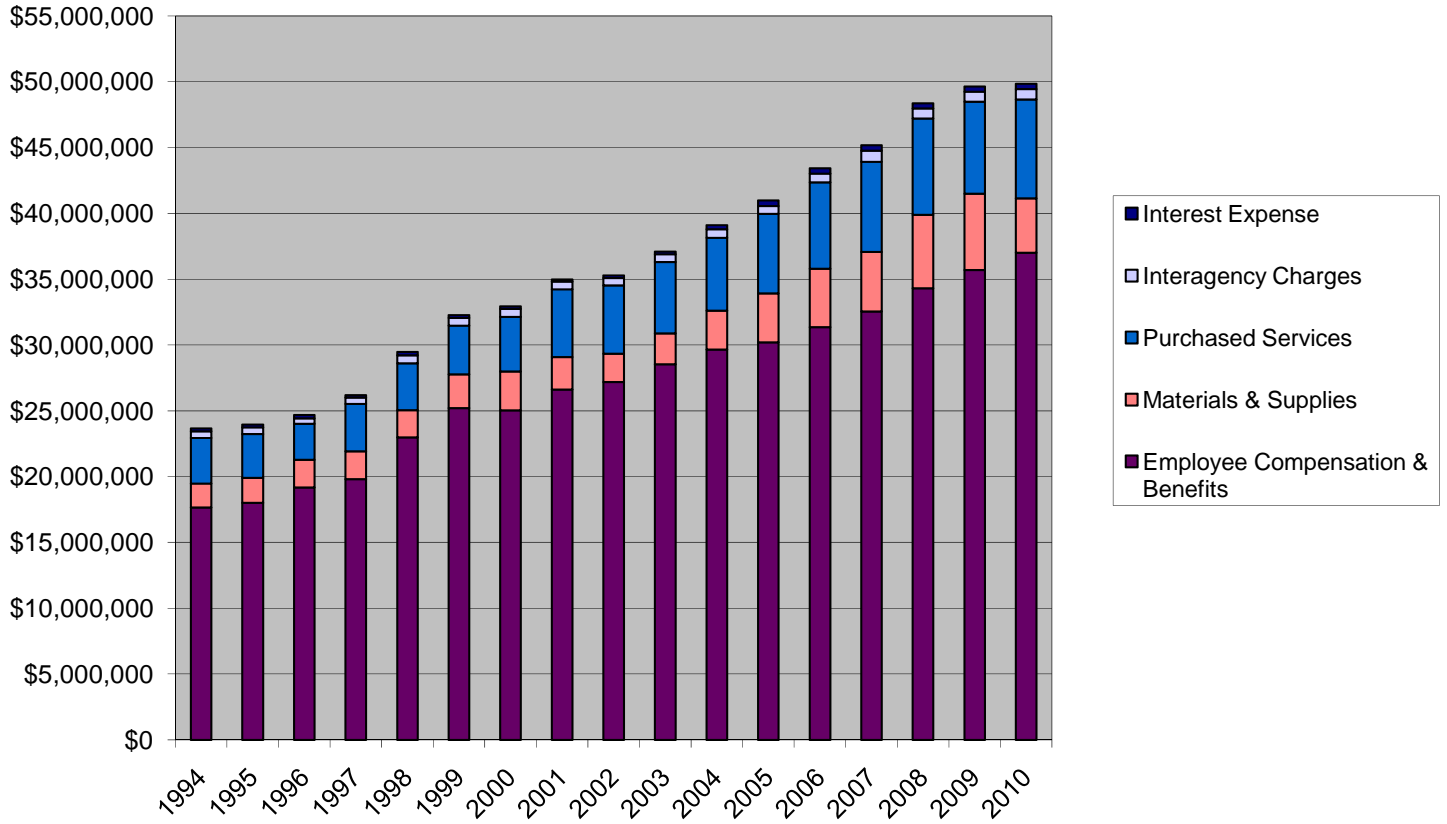


The first of the following charts shows that total operating expenses did not increase significantly between 2009 and 2010. The previous five years had seen an average increase of 5.4% per year, driven primarily by the rise in fuel costs during that period, but the total cost of fuel in 2010 was 36.9% less than in 2009. The second chart compares Metro’s revenue sources for the same period of time. Passenger revenue has increased by an average of 7.8% per year during the last 5 years whereas state aid, which provides the largest portion of Metro’s revenue, increased 2.9% per year during the same time period.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

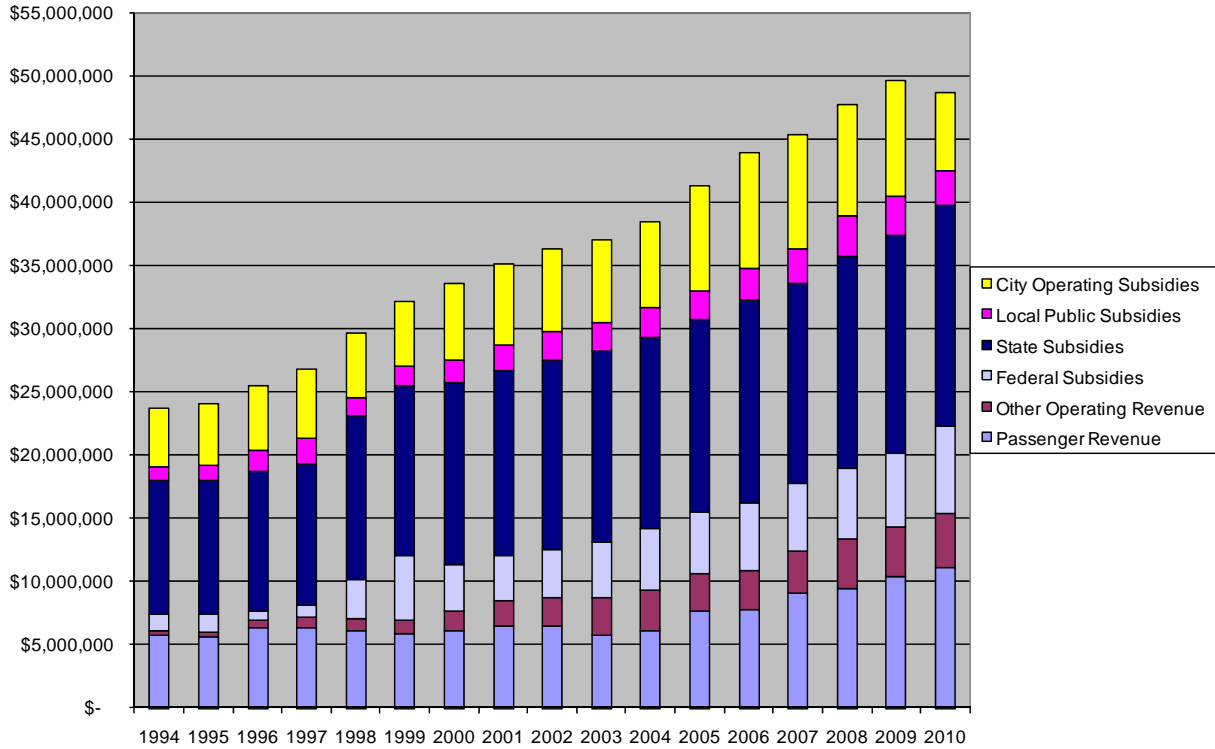
Madison Metro Transit
Historical Expense Comparison



METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit Historical Revenue Comparison



GRANT STATUS

Metro is fortunate to have strong federal and state support for capital funding for rolling stock (buses), ITS hardware/software, transit enhancements, facilities improvements and other capital projects. The following chart shows the year-end grant status of each grant against which expenses were charged during the year. Note that where balances are available as of 12/31/10 future capital project plans are budgeted to draw down those balances.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit

Year End Grant Status as of 12/31/10

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

GRANTS	Funding Year	Total Funds Apportionment	Prior years expenditures	Beginning Balance 1/1/10	2010 expenditures	Balance available as of 12/31/10	Future Budgeted projects	Balance after budgeted projects	Detail of future budgeted projects- see page 2 & 3.
Federal Section 5307 Grants									
WI90X438	2005	\$ 7,611,755	\$ 7,518,751	\$ 93,004	\$ 93,004	\$ -	\$ -	\$ -	Grant will be closed in 2011
WI90X493	2007	\$ 7,778,055	\$ 7,753,571	\$ 24,484	\$ 24,484	\$ -	\$ -	\$ -	Grant Closed 10/7/10
WI90X530	2008	\$ 8,362,820	\$ 8,134,654	\$ 228,166	\$ 228,160	\$ 6	\$ -	\$ 6	Grant will be closed in 2011 - balance will be deobligated.
WI90X549	2009	\$ 8,980,667	\$ 7,248,209	\$ 1,732,458	\$ 477,457	\$ 1,255,001	\$ 1,255,001	\$ -	Software, MFDe, Signs, TP Repair, Farebox, Truck & bus line inspection
WI96X011-ARRA	2009	\$ 9,502,302	\$ 519,356	\$ 8,982,946	\$ 8,617,592	\$ 365,354	\$ 365,354	\$ -	Garage Lighting, signs, & Security systems
WI90X573	2010	\$ 8,832,424	\$ -	\$ 8,832,424	\$ 7,405,063	\$ 1,427,361	\$ 1,427,361	\$ -	MPO,PM, TE, Maint equip,security cameras, software, hardware, Utility trucks, Farebox, Repave Parking Lot, etc.
WI90X630	2011	\$ 8,918,913	\$ -	\$ 8,918,913	\$ -	\$ 8,918,913	\$ 8,918,913	\$ -	MPO,PM, leases,TE,Fareboxes, Maint equip, security cameras, Rehab equip, software, hardware, Utility trucks, ADA Paratran services, etc.
Total Section 5307		\$ 59,986,936	\$ 31,174,541	\$ 28,812,395	\$ 16,845,760	\$ 11,966,635	\$ 11,966,629	\$ 6	
Federal Section 5309 Grants (Fixed Guideway)									
WI050048	2009	\$ 1,209,720	\$ 16,044	\$ 1,193,676	\$ -	\$ 1,193,676	\$ 1,193,676	\$ -	2011 buses
WI560001-ARRA	2009	\$ 243,232	\$ -	\$ 243,232	\$ 243,232	\$ -	\$ -	\$ -	Grant will be closed in 2011
WI050049	2010	\$ 1,146,400	\$ -	\$ 1,146,400	\$ -	\$ 1,146,400	\$ 1,146,400	\$ -	2011 buses
WI050050	2011	\$ 631,410	\$ -	\$ 631,410	\$ -	\$ 631,410	\$ 631,410	\$ -	2011 buses
Total Section 5309		\$ 3,230,762	\$ 16,044	\$ 3,214,718	\$ 243,232	\$ 2,971,486	\$ 2,971,486	\$ -	
Federal ARRA-Tigger Grant									
WI770001	2010	\$ 150,000	\$ -	\$ 150,000	\$ -	\$ 150,000	\$ 150,000	\$ -	Bus Storage & Garage Lighting project
Total TIGGER		\$ 150,000	\$ -	\$ 150,000	\$ -	\$ 150,000	\$ 150,000	\$ -	
State Section 5309 Grants (discretionary)									
WI030091	2007	\$ 312,500	\$ -	\$ 312,500	\$ -	\$ 312,500	\$ 312,500	\$ -	2011 buses
WI040022	2009	\$ 1,642,597	\$ -	\$ 1,642,597	\$ -	\$ 1,642,597	\$ 1,642,597	\$ -	2011 buses
WI040043	2010	\$ 414,054	\$ -	\$ 414,054	\$ -	\$ 414,054	\$ 414,054	\$ -	2011 buses & Stoughton Van
WI040042	2010	\$ 187,500	\$ -	\$ 187,500	\$ -	\$ 187,500	\$ 187,500	\$ -	Engineering & Design for new Facility
Total State 5309		\$ 2,556,651	\$ -	\$ 2,556,651	\$ -	\$ 2,556,651	\$ 2,556,651	\$ -	
Total Capital Grants		\$ 65,924,349	\$ 31,190,585	\$ 34,733,764	\$ 17,088,992	\$ 17,644,772	\$ 17,644,766	\$ 6	
OTHER GRANTS:									
Transport 2020 Grants									
WI260012	2006	\$ 1,980,000	\$ -	\$ 1,980,000	\$ -	\$ 1,980,000	\$ 1,980,000	\$ -	HNTB transport 2020 contract
WI390001	2006	\$ 1,485,000	\$ 1,225,568	\$ 259,432	\$ 109,550	\$ 149,882	\$ 149,882	\$ -	HNTB transport 2020 contract
WI390002	2007	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 1,500,000	\$ -	HNTB transport 2020 contract
WI390003	2007	\$ 250,000	\$ 228,733	\$ 21,267	\$ 21,267	\$ -	\$ -	\$ -	HNTB transport 2020 contract
Total Transport 2020 (SG67)		\$ 5,215,000	\$ 1,454,301	\$ 3,760,699	\$ 130,817	\$ 3,629,882	\$ 3,629,882	\$ -	

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

GRANTS	Funding Year	TE projects-1% of grant-repaint STP purchase display signs	Security cameras Systems	Utility Service Trucks	Farebox System	Stoughton Van	HVAC units, exhaust hose, repave parking lot	Bus Storage & Garage Lighting project
Federal Section 5307 Grants								
WI90X438	2005							
WI90X493	2007							
WI90X530	2008							
WI90X549	2009	\$ 88,893		\$ 52,734	\$ 850,000			
WI96X011-ARRA	2009	\$ 30,500	\$ 259,854			\$ -		\$ 75,000
WI90X573	2010	\$ 88,324	\$ 10,000	\$ 20,000	\$ 875,000		\$ 220,000	
WI90X630	2011	\$ 89,189	\$ 10,000	\$ 52,724	\$ 1,210,000		\$ 50,000	
Total Section 5307		\$ 296,906	\$ 279,854	\$ 125,458	\$ 2,935,000	\$ -	\$ 270,000	\$ 75,000
Federal Section 5309 Grants (Fixed Guideway)								
WI050048	2009							
WI560001-ARRA	2009							
WI050049	2010							
WI050050	2011							
Total Section 5309		\$ -						\$ -
Federal ARRA-Tigger Grant								
WI770001	2010							\$ 150,000
Total TIGGER		\$ -						\$ 150,000
State Section 5309 Grants (discretionary)								
WI030091	2007							
WI040022	2009							
WI040043	2010					\$ 33,000		
WI040042	2010							
Total State 5309		\$ -	\$ -	\$ -	\$ -	\$ 33,000	\$ -	\$ -
Total Capital Grants		\$ 296,906	\$ 279,854	\$ 125,458	\$ 2,935,000	\$ 33,000	\$ 270,000	\$ 225,000

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

GRANTS	Funding Year	Workforce Scheduling software and misc software	SHOP Equip (particulate trap, mobile lift, washers, wrenches, etc.)	New Facility Pre Engineering	Computer hardware, MFD & software repl	Transport 2020 HNTB Consultants/ On board survey	2011/12 buses and bus line inspection	2011 MPO	Prev Maint, tires, office lease, Paratrnst & ACM	Total Budgeted Projects
Federal Section 5307 Grants										
WI90X438	2005									
WI90X493	2007									\$ -
WI90X530	2008									\$ -
WI90X549	2009	\$ 225,950			\$ 30,424		\$ 7,000			\$ 1,255,001
WI96X011-ARRA	2009									\$ 365,354
WI90X573	2010	\$ 150,000	\$ 25,814		\$ 10,000			\$ 10,000	\$ 18,223	\$ 1,427,361
WI90X630	2011		\$ 10,000		\$ 30,000	\$ -	\$ -	\$ 50,000	\$ 7,417,000	\$ 8,918,913
Total Section 5307		\$ 375,950	\$ 35,814	\$ -	\$ 70,424	\$ -	\$ 7,000	\$ 60,000	\$ 7,435,223	\$ 11,966,629
Federal Section 5309 Grants (Fixed Guideway)										
WI050048	2009						\$ 1,193,676			\$ 1,193,676
WI560001-ARRA	2009						\$ -			\$ -
WI050049	2010						\$ 1,146,400			\$ 1,146,400
WI050050	2011						\$ 631,410			\$ 631,410
Total Section 5309		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,971,486	\$ -	\$ -	\$ 2,971,486
Federal ARRA-Tigger Grant										
WI770001	2010									\$ 150,000
Total TIGGER		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,000
State Section 5309 Grants (discretionary)										
WI030091	2007						\$ 312,500			\$ 312,500
WI040022	2009						\$ 1,642,597			\$ 1,642,597
WI040043	2010						\$ 381,054			\$ 414,054
WI040042	2010				\$ 187,500		\$ -			\$ 187,500
Total State 5309		\$ -	\$ -	\$ 187,500	\$ -	\$ -	\$ 2,336,151	\$ -	\$ -	\$ 2,556,651
Total Capital Grants		\$ 375,950	\$ 35,814	\$ 187,500	\$ 70,424	\$ -	\$ 5,314,637	\$ 60,000	\$ 7,435,223	\$ 17,644,766
OTHER GRANTS:										
Transport 2020 Grants										
WI260012	2006						\$ 1,980,000.00			\$ 1,980,000.00
WI390001	2006						\$ 149,882.00			\$ 149,882.00
WI390002	2007						\$ 1,500,000.00			\$ 1,500,000.00
WI390003	2007						\$ -			\$ -
Total Transport 2020 (SG67)							\$ 3,629,882.00			\$ 3,629,882.00

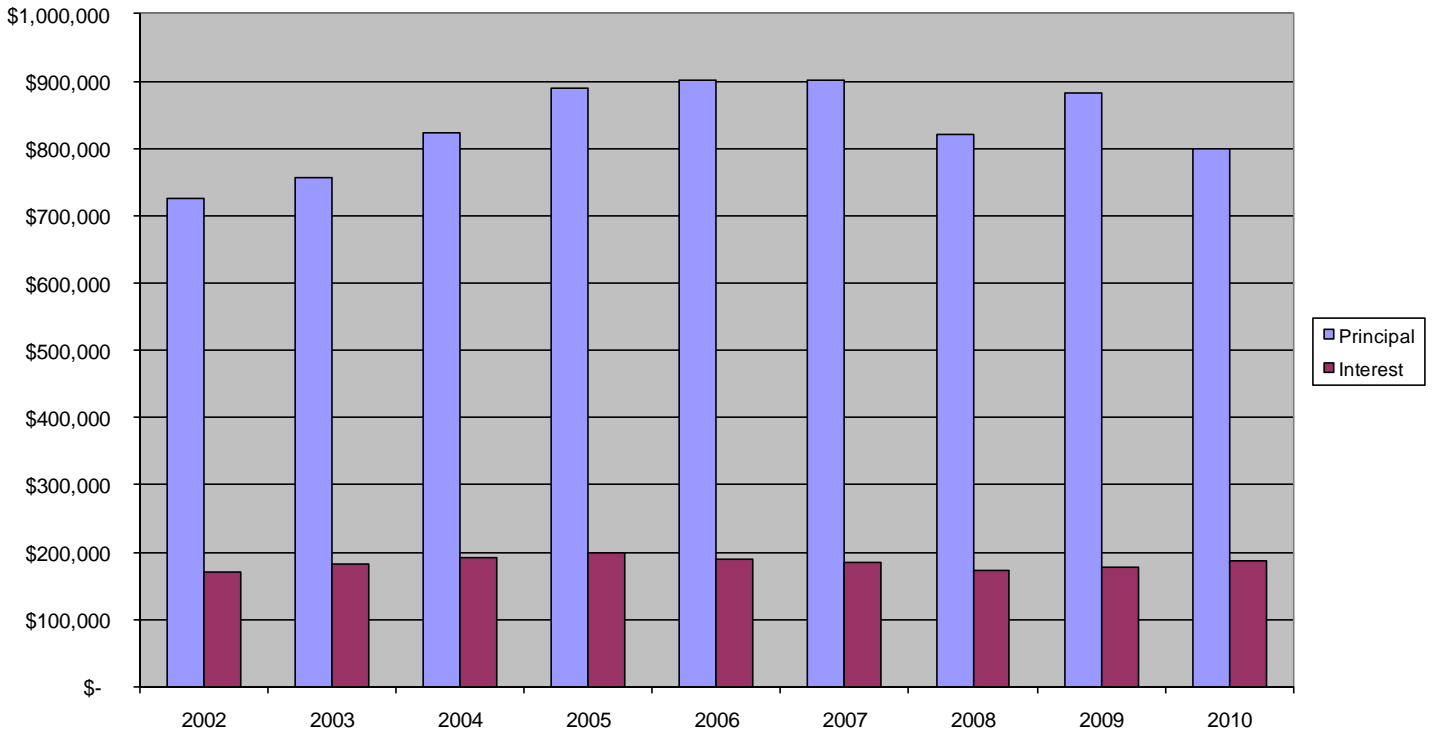
Borrowing

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.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit Principal & Interest Payments General Obligation Debt



Financial Statements

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

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Condensed Statements

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

Table 1

Condensed Statements of Net Assets

	2010	2009	2008
Current and Other Assets	\$ 11,661,223	\$ 8,975,758	\$ 9,553,581
Capital Assets ¹	<u>41,028,931</u>	<u>38,460,743</u>	<u>32,526,006</u>
Total Assets	<u>52,690,154</u>	<u>47,436,501</u>	<u>42,079,587</u>
Long-Term Debt ²	8,713,215	9,242,235	9,398,301
Other Liabilities	<u>13,431,682</u>	<u>9,769,576</u>	<u>9,010,318</u>
Total Liabilities	<u>22,144,897</u>	<u>19,011,811</u>	<u>18,408,619</u>
Invested in Capital Assets, Net of Related Debt ³	36,796,583	33,546,521	28,839,830
Unrestricted (Deficit)	<u>(6,251,326)</u>	<u>(5,121,832)</u>	<u>(5,168,862)</u>
Total Net Assets	<u>\$ 30,545,257</u>	<u>\$ 28,424,689</u>	<u>\$ 23,670,968</u>

¹ See Page 27, Note 2 for details in this Audit report

² See Page 29, Note 4 for details in this Audit report

³ See Page 25, Note 1 for details in this Audit report

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2010	2009	2008
Operating Revenues	\$ 15,364,470	\$ 14,311,144	\$ 13,294,906
Depreciation Expense	6,089,482	5,427,865	5,430,244
Other Operating Expenses	49,523,643	49,244,471	47,962,516
Non-operating Expenses ¹	<u>406,204</u>	<u>398,553</u>	<u>400,290</u>
Total Expenses	<u>56,019,329</u>	<u>55,070,889</u>	<u>53,793,050</u>
Operating Subsidies ¹	27,101,036	26,134,472	25,542,393
Income Before Capital			
Contributions and Transfers	(13,553,823)	(14,625,273)	(14,955,751)
Capital Contributions ²	9,452,726	10,211,514	1,921,747
Transfers	<u>6,221,665</u>	<u>9,167,480</u>	<u>8,867,099</u>
Changes in Net Assets	<u>2,120,568</u>	<u>4,753,721</u>	<u>(4,166,905)</u>
Beginning Net Assets	28,424,689	23,670,968	27,837,873
Ending Net Assets	<u>\$ 30,545,257</u>	<u>\$ 28,424,689</u>	<u>\$ 23,670,968</u>

¹ See Page 18 Statements of Revenues, Expenses and Changes in Net Assets for more detail

² See Pages 8-11 (Year End Grant Status) in this MD&A report for more detail.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Request for Information

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

Respectfully submitted

Charles L. Kamp
Metro Transit General Manager

METRO TRANSIT SYSTEM

STATEMENTS OF NET ASSETS December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Restricted cash - retiree health insurance escrow	\$ 196,778	\$ 182,455
Receivable from State of Wisconsin and FTA - capital and maintenance	5,634,164	2,730,408
Receivable from other governmental units	2,202,551	2,456,605
Accounts receivable (net)	1,035,301	1,115,239
Materials and supplies	478,552	510,048
Prepaid expenses	609,193	590,920
Current portion of prepaid expense - land and tower lease	26,129	27,087
Total Current Assets	<u>10,182,668</u>	<u>7,612,762</u>
NON-CURRENT ASSETS		
Restricted cash - retiree health insurance escrow	1,282,506	1,140,818
Other Assets		
Prepaid expenses - land and tower lease	196,049	222,178
Capital Assets		
Transit plant in service	92,948,274	87,784,720
Accumulated depreciation	(51,936,508)	(49,323,977)
Construction work in progress	17,165	-
Total Non-Current Assets	<u>42,507,486</u>	<u>39,823,739</u>
 Total Assets	 <u>52,690,154</u>	 <u>47,436,501</u>

LIABILITIES

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Due to city	\$ 3,848,528	\$ 897,369
Current portion of general obligation debt	858,109	798,836
Current portion of advance from other funds	170,090	96,028
Current portion of deferred revenue - land and tower lease	24,021	24,919
Accounts payable	1,366,743	1,139,748
Accrued compensation, vacation and sick leave	1,523,285	1,239,827
Accrued interest	66,029	215,905
Retiree health insurance escrow payable from restricted assets	196,778	182,455
Other deferred credits	-	2,650
Total Current Liabilities	<u>8,053,583</u>	<u>4,597,737</u>
NON CURRENT LIABILITIES		
General obligation debt	3,521,395	4,216,355
Advance from other funds	4,163,621	4,131,016
Retiree health insurance escrow payable from restricted assets	1,282,506	1,140,818
Accrued sick leave	3,033,441	3,365,913
Deposits from other governments	232,413	124,676
Other post-employment benefits	1,683,178	1,236,516
Unearned revenue - land and tower lease	174,760	198,781
Total Non-Current Liabilities	<u>14,091,314</u>	<u>14,414,075</u>
Total Liabilities	<u>22,144,897</u>	<u>19,011,812</u>
	NET ASSETS	
NET ASSETS		
Invested in capital assets, net of related debt	36,796,583	33,546,521
Unrestricted (Deficit)	<u>(6,251,326)</u>	<u>(5,121,832)</u>
TOTAL NET ASSETS	<u>\$ 30,545,257</u>	<u>\$ 28,424,689</u>

METRO TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES	<u>\$ 15,364,470</u>	<u>\$ 14,311,144</u>
OPERATING EXPENSES		
Employee compensation and benefits	37,001,510	35,697,169
Materials and supplies	4,131,430	5,797,744
Purchased services	7,597,128	6,981,135
Interagency charges	793,575	768,423
Total Operation and Maintenance Expenses	<u>49,523,643</u>	<u>49,244,471</u>
Depreciation expense	6,089,482	5,427,865
Total Operating Expenses	<u>55,613,125</u>	<u>54,672,336</u>
Operating Loss	<u>(40,248,655)</u>	<u>(40,361,192)</u>
OPERATING SUBSIDIES		
Federal subsidies	6,902,527	5,824,984
State operating subsidies	17,496,400	17,158,400
Other state subsidies	8,672	8,920
Local public subsidies	<u>2,693,437</u>	<u>3,142,168</u>
Total Operating Subsidies	<u>27,101,036</u>	<u>26,134,472</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	<u>(406,204)</u>	<u>(398,553)</u>
Loss Before Contributions and Transfers	<u>(13,553,823)</u>	<u>(14,625,273)</u>
CAPITAL CONTRIBUTIONS - CITY & OTHER	929,373	1,023,894
CAPITAL CONTRIBUTIONS - FEDERAL & STATE	8,523,353	9,187,620
TRANSFERS IN - MPO	8,741	10,216
TRANSFERS IN - CITY OPERATING SUBSIDIES	<u>6,212,924</u>	<u>9,157,264</u>
Total Contributions and Transfers	<u>15,674,391</u>	<u>19,378,994</u>
CHANGE IN NET ASSETS	2,120,568	4,753,721
NET ASSETS - Beginning of Year	<u>28,424,689</u>	<u>23,670,968</u>
NET ASSETS - End of Year	<u>\$ 30,545,257</u>	<u>\$ 28,424,689</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 15,556,964	\$ 13,775,953
Paid to suppliers for goods and services	(24,230,964)	(24,489,312)
Paid to employees for services	(24,682,308)	(24,758,988)
Cash Flows from Operating Activities	(33,356,308)	(35,472,347)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Received from (paid to) city for implicit financing	2,951,159	897,369
Operating subsidies received - federal	6,955,866	5,800,401
Operating subsidies received - state	13,130,972	17,167,320
Operating subsidies received - local	3,049,941	3,396,130
Deposits received from other governments	107,737	124,676
Repayment of non-capital advances from other funds	(96,028)	(79,189)
Interest paid on non-capital advances from other funds	(395,423)	(226,077)
Proceeds from non-capital advances from other funds	202,695	-
Operating transfer from city	6,212,924	9,157,264
Cash Flows from Noncapital Financing Activities	32,119,843	36,237,894
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(798,836)	(881,878)
Interest paid	(160,657)	(191,840)
Proceeds from issuance of general obligation debt	163,150	805,000
Acquisition and construction of capital assets	(8,680,912)	(11,362,602)
Capital contributions - city and other	929,373	1,023,894
Capital contributions - federal and state	9,940,358	8,196,525
Cash Flows From Capital and Related Financing Activities	1,392,476	(2,410,901)
Net Change in Cash and Cash Equivalents	156,011	(1,645,354)
CASH AND CASH EQUIVALENTS – Beginning of Year	1,323,273	2,968,627
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,479,284	\$ 1,323,273
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt refinanced	\$ 5,253,759	\$ 1,418,700

	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH		
FLows FROM OPERATING ACTIVITIES		
Operating loss	\$ (40,248,655)	\$ (40,361,192)
Noncash items included in operating loss		
Depreciation expense	6,089,482	5,427,865
Other noncash items	23,243	-
Changes in Assets and Liabilities		
Accounts receivable	198,989	(460,937)
Materials and supplies	31,496	103,255
Prepaid expenses	8,814	(26,990)
Accrued payroll liabilities	(49,014)	(143,579)
Retiree health insurance escrow payable from restricted assets	156,011	72,920
Other post-employment benefits	446,662	423,417
Accounts payable	14,233	(435,082)
Other deferred credits	(27,569)	(72,024)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (33,356,308)	\$ (35,472,347)
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO		
STATEMENT OF NET ASSETS ACCOUNTS		
Cash	\$ -	\$ -
Restricted Cash - Retiree Health Insurance Escrow	1,479,284	1,323,273
CASH AND CASH EQUIVALENTS	\$ 1,479,284	\$ 1,323,273

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

Metro provides public bus transportation in the Cities of Madison, Middleton, Fitchburg and Verona, the Town of Madison and the Village of Shorewood Hills. Metro is governed by the City Transit and Parking Commission which consists of City Council members and citizen representatives. Service is provided in two major areas: fixed route service utilizing approximately 200 coaches and paratransit services for the elderly and handicapped using both directly operated and purchased transportation services.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

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

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

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

ASSETS, LIABILITIES, AND NET ASSETS

Cash and Cash Equivalents

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

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

Deposits and Investments

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

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

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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 \$29,273 and \$28,728 are included in 2010 and 2009, respectively, for general accounts receivable.

Materials and Supplies

Materials and supplies are generally used for operation and maintenance work, not for resale. They are valued at lower of cost or market based on the FIFO method and charged to operation and maintenance expense when used. An allowance of \$50,000 for obsolete materials is included in 2010 and 2009.

Prepaid Expenses

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

Capital Assets

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

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

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

A summary of capital assets and estimated useful lives follows:

	Balance 12/31/10	Balance 12/31/09	Years
Land	\$ 2,604,992	\$ 2,628,235	N/A
Building	11,764,613	11,630,925	5 – 40
Curb and land improvements	6,566,431	6,573,122	5
Revenue equipment	60,401,005	55,951,262	8 – 20
Service vehicles	683,318	686,318	4 – 5
Shop and garage equipment	1,883,258	1,763,008	3 – 10
Furniture and office equipment	1,773,289	1,438,903	3 – 10
Miscellaneous and farebox	7,271,368	7,112,947	3 – 15
 Total Capital Assets	 \$ 92,948,274	 \$ 87,784,720	

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

ASSETS, LIABILITIES, AND NET ASSETS (cont.)

Accrued Compensation, Sick Leave and Vacation

Employees are allowed to accumulate up to 150 days of sick time. For office employees and drivers one day is equivalent to eight hours; for all other employees one day is equivalent to 8-36/60 hours. Upon retirement or disability, Wisconsin Retirement System participants may receive the cash value of the accumulated sick leave subject to the above maximum or use all or a portion for the payment of continued health insurance premiums. Funding for those costs is provided out of Metro's operating revenues. The estimated liability for current employees at December 31, 2010 and 2009 is \$ 3,418,555 and \$3,416,769, respectively.

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

Retiree Health Insurance Escrow

Metro makes an annual deposit into an escrow account for contributions toward the health insurance premiums for certain eligible retirees. The deposit in 2010 and 2009 was \$343,000 and \$303,000, respectively. To qualify a retiree must have retired on or after reaching age 55, must have completed ten continuous years of full-time service with Metro in a position represented by Teamsters Union Local 695, just prior to retiring and be eligible to retire under the Wisconsin Retirement System (WRS). Retirees receive this benefit for a maximum of five consecutive years or until becoming eligible for Medicare. Retirees will be eligible for premium contributions to the extent that funds are available in the escrow account and Metro will not be required to make any additional payments to the account should the cost of providing premium contributions exceed the amount deposited. Interest income remains with the escrow account less a 1% administrative fee transferred to the City. 103 current employees have met the eligibility requirements.

Long-Term Obligations

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

Deposits from Other Governments

\$107,737 and \$124,676, respectively in deposits were received in 2010 and 2009 from the entities listed in Note 5 that provide Metro with local operating assistance subsidies. These deposits will be held by Metro in reserve to help fund unanticipated cost increases in future years.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

ASSETS, LIABILITIES, AND NET ASSETS (cont.)

Net Assets

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

- > *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- > *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.
- > Metro's restricted assets equal liabilities payable from those assets therefore there are no restricted net assets.
- > *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

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

	2010	2009
Plant in service	\$ 92,948,274	\$ 87,784,720
Accumulated depreciation	(51,936,508)	(49,323,977)
Construction work in progress	17,165	-
Sub-Totals	41,028,931	38,460,743
Less: Capital related debt		
Current portion of general obligation bonds	858,109	798,836
Long-term portion of capital related general obligation bonds	3,521,395	4,216,355
Sub-Totals	4,379,504	5,015,191
Add unspent proceeds of capital-related debt included above	147,156	100,969
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 36,796,583	\$ 33,546,521

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

REVENUES AND EXPENSES

Revenue Recognition

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

Taxes

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

Capital Contributions

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

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

COMPARATIVE DATA

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 2 – CHANGES IN CAPITAL ASSETS

A summary of changes in Metro capital assets for 2010 and 2009 follows:

	Balance 1/1/10	Additions	Retirements	Balance 12/31/10
Capital assets not being depreciated				
Land	\$ 2,628,235	\$ -	\$ (23,243)	\$ 2,604,992
Capital assets being depreciated				
Building and improvements	11,630,925	133,688	-	11,764,613
Curb and land improvements	6,573,122	35,280	(41,971)	6,566,431
Revenue vehicles	55,951,262	7,875,950	(3,426,207)	60,401,005
Service vehicles	686,318	-	(3,000)	683,318
Shop and garage equipment	1,763,008	126,022	(5,772)	1,883,258
Office equipment	1,438,903	334,386	-	1,773,289
Miscellaneous and farebox	7,112,947	158,421	-	7,271,368
Total Capital Assets Being Depreciated	85,156,485	8,663,747	(3,476,950)	90,343,282
Total Capital Assets	87,784,720	8,663,747	(3,500,193)	92,948,274
Less: Accumulated depreciation				
Building and improvements	(7,896,710)	(402,839)	-	(8,299,549)
Curb and land improvements	(5,182,718)	(419,520)	41,971	(5,560,267)
Revenue vehicles	(29,486,916)	(4,282,021)	3,426,207	(30,342,730)
Service vehicles	(502,166)	(48,086)	3,000	(547,252)
Shop and garage equipment	(1,483,754)	(77,980)	5,772	(1,555,962)
Office equipment	(1,074,129)	(154,381)	-	(1,228,510)
Miscellaneous and farebox	(3,697,584)	(704,654)	-	(4,402,238)
Total Accumulated Depreciation	(49,323,977)	(6,089,481)	3,476,950	(51,936,508)
Construction in progress	-	96,320	(79,155)	17,165
Net Transit System Plant	\$ 38,460,743			\$ 41,028,932

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 2 – CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/09	Additions	Retirements	Balance 12/31/09
Capital assets, not being depreciated				
Land	\$ 2,628,235	\$ -	\$ -	\$ 2,628,235
Capital assets being depreciated				
Building and improvements	11,612,675	31,383	(13,133)	11,630,925
Curb and land improvements	6,619,484	-	(46,361)	6,573,122
Revenue vehicles	51,618,213	10,709,374	(6,376,325)	55,951,262
Service vehicles	660,064	79,255	(53,001)	686,318
Shop and garage equipment	1,596,009	167,208	(209)	1,763,008
Office equipment	1,388,015	71,811	(20,923)	1,438,903
Miscellaneous and farebox	6,747,284	365,662	-	7,112,947
Total Capital Assets Being Depreciated	<u>80,241,744</u>	<u>11,424,693</u>	<u>(6,509,952)</u>	<u>85,156,485</u>
Total Capital Assets	<u>82,869,979</u>	<u>11,424,693</u>	<u>(6,509,952)</u>	<u>87,784,720</u>
Less: Accumulated depreciation				
Building and improvements	(7,486,916)	(422,927)	13,133	(7,896,710)
Curb and land improvements	(4,816,179)	(412,900)	46,361	(5,182,718)
Revenue vehicles	(32,252,315)	(3,610,926)	6,376,325	(29,486,916)
Service vehicles	(515,007)	(40,160)	53,001	(502,166)
Shop and garage equipment	(1,421,220)	(62,743)	209	(1,483,754)
Office equipment	(943,255)	(151,797)	20,923	(1,074,129)
Miscellaneous and farebox	(2,971,172)	(726,412)	-	(3,697,584)
Total Accumulated Depreciation	<u>(50,406,064)</u>	<u>(5,427,865)</u>	<u>6,509,952</u>	<u>(49,323,977)</u>
Construction in progress	<u>62,091</u>	<u>329,328</u>	<u>(391,419)</u>	<u>-</u>
Net Transit System Plant	<u>\$ 32,526,006</u>			<u>\$ 38,460,743</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 3 – INTER-FUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of inter-fund balances as of December 31, 2010 and 2009:

Due To	Due From	2010		2009	
		Amount	Purpose	Amount	Purpose
City of Madison	Metro	\$ 3,848,528	Implicit cash financing	\$ 897,369	Implicit cash financing

The following is a schedule of transfer balances as of December 31, 2010 and 2009:

To	From	2010		2009	
		Amount	Principal Purpose	Amount	Principal Purpose
Metro	City of Madison	\$ 6,212,924	City operating subsidy	\$ 9,157,264	City operating subsidy
Metro	City of Madison	\$8,741	Local share of MPO grant	\$10,216	Local share of MPO grant

NOTE 4 – LONG-TERM OBLIGATIONS

GENERAL OBLIGATION NOTES

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

Title of Issue	Date of Issue	Final Maturity	Interest Rates	Original Amount	Amount Outstanding 12/31/10
Promissory Note	10-1-06	10-1-11	4.00%	\$ 750,000	\$ 75,042
Promissory Note	10-1-07	10-1-17	4.00 – 5.00%	380,648	266,453
Promissory Note	10-15-08	10-15-18	3.82%	1,420,000	1,136,000
Promissory Note	10-1-09	10-1-15	2.00 – 3.00%	1,418,700	1,159,609
Promissory Note	10-1-09	10-1-19	0.90 – 4.35%	805,000	724,463
Promissory Note	10-19-10	10-19-20	2.00 – 3.75%	97,890	97,890
Promissory Note	10-19-10	10-19-16	3.00 - 4.00%	920,047	920,047
Total					<u>\$ 4,379,504</u>

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Year	10-1-06		10-1-07		10-15-08		10-1-09		10-1-09		10-19-10	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 75,042	\$ 17,993	\$ 38,065	\$ 10,658	\$ 142,000	\$ 44,446	\$ 382,175	\$ 33,244	\$ 80,537	\$ 14,505	\$ -	\$ 1,743
2012	-	-	38,065	9,135	142,000	39,476	305,934	21,778	80,537	13,458	-	1,835
2013	-	-	38,065	7,613	142,000	34,506	224,362	12,600	80,537	12,411	-	1,835
2014	-	-	38,065	6,090	142,000	29,181	123,569	5,870	80,537	11,298	-	1,835
2015	-	-	38,065	4,568	142,000	23,856	123,569	3,089	80,463	9,793	16,315	1,834
2016	-	-	38,064	3,045	142,000	18,176	-	-	80,463	8,225	16,315	1,622
2017	-	-	38,064	1,523	142,000	12,141	-	-	80,463	6,394	16,315	1,378
2018	-	-	-	-	142,000	6,106	-	-	80,463	4,406	16,315	1,087
2019	-	-	-	-	-	-	-	-	80,463	2,249	16,335	769
2020	-	-	-	-	-	-	-	-	-	-	16,295	397
Totals	<u>\$ 75,042</u>	<u>\$ 17,993</u>	<u>\$ 266,453</u>	<u>\$ 42,632</u>	<u>\$ 1,136,000</u>	<u>\$ 207,888</u>	<u>\$ 1,159,609</u>	<u>\$ 76,581</u>	<u>\$ 724,463</u>	<u>\$ 82,739</u>	<u>\$ 97,890</u>	<u>\$ 14,335</u>

Year	10-19-10		Total	
	Principal	Interest	Principal	Interest
2011	\$ 140,290	\$ 20,720	\$ 858,109	\$ 143,308
2012	213,348	29,680	779,884	115,363
2013	209,665	21,146	694,630	90,111
2014	205,748	12,760	589,920	67,034
2015	75,348	4,530	475,759	47,671
2016	75,648	2,269	352,490	33,337
2017	-	-	276,842	21,436
2018	-	-	238,778	11,599
2019	-	-	96,797	3,018
2020	-	-	16,295	397
Totals	<u>\$ 920,047</u>	<u>\$ 91,105</u>	<u>\$ 4,379,504</u>	<u>\$ 533,274</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

DEBT REFUNDING

On October 2, 2009, the municipality, on behalf of Metro, issued \$1,418,700 in bonds with an average interest rate of 2.69 percent to refund \$1,418,700 of outstanding bonds with an average interest rate of 4.0 percent. The proceeds were transferred to the city's debt service fund where they were used to pay off the refunded bonds when callable in 2009 and 2010. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed.

The cash flow requirements on the old bonds prior to the advance refunding was \$1,562,041 from 2010 through 2015. The cash flow requirements on the new bonds are \$1,533,707 from 2010 through 2015. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$35,000.

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

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

ADVANCE FROM OTHER FUNDS

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

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Amount Outstanding 12/31/10
October 19, 2010	Pay off WRS Prior Service Liability	October 19, 2024	0.55 - 4.00%	\$ 4,333,711	\$ 4,333,711

Advance from other funds debt service requirements to maturity follows:

Year	Principal	Interest	Total
2011	\$ 170,090	\$ 120,809	\$ 290,899
2012	178,147	126,232	304,379
2013	192,470	124,718	317,188
2014	210,374	122,793	333,167
2015	229,174	120,058	349,232
2016	251,554	116,047	367,601
2017	274,829	110,387	385,216
2018	300,791	103,517	404,308
2019	330,332	94,493	424,825
2020	362,560	83,757	446,317
2021	398,368	71,068	469,436
2022	436,863	56,527	493,390
2023	477,147	39,926	517,073
2024	521,012	20,840	541,852
Totals	<u>\$ 4,333,711</u>	<u>\$ 1,311,172</u>	<u>\$ 5,644,883</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Metro's long-term obligations activity for the years ended December 31, 2010 and 2009 is as follows:

	Balance 1/1/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
General obligation notes	\$ 5,015,191	\$ 1,083,196	\$ 1,718,883	\$ 4,379,504	\$ 858,109
Advance from other funds	4,227,044	4,536,406	4,429,739	4,333,711	170,090
Retiree health insurance escrow	1,323,273	348,175	192,164	1,479,284	196,778
Accrued sick leave	3,416,770	90,013	88,227	3,418,556	385,115
Deposits from other governments	124,676	107,737	-	232,413	-
Unfunded OPEB liability	1,236,516	446,662	-	1,683,178	-
Deferred revenue-land and tower lease	223,700	-	24,919	198,781	24,021
Totals	\$ 15,567,170	\$ 6,612,189	\$ 6,453,932	\$ 15,725,427	\$ 1,634,113
	Balance 1/1/09	Additions	Reductions	Balance 12/31/09	Due Within One Year
General obligation notes	\$ 5,092,068	\$ 2,223,700	\$ 2,300,577	\$ 5,015,191	\$ 798,836
Advance from other funds	4,306,233	-	79,189	4,227,044	96,028
Retiree health insurance escrow	1,250,353	312,666	239,746	1,323,273	182,455
Accrued sick leave	3,497,317	69,132	149,679	3,416,770	50,857
Deposits from other governments	-	124,676	-	124,676	-
Unfunded OPEB liability	813,099	423,417	-	1,236,516	-
Deferred revenue-land and tower lease	249,568	-	25,868	223,700	24,919
Totals	\$ 15,208,638	\$ 3,153,591	\$ 2,795,059	\$ 15,567,170	\$ 1,153,095

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 5 – OPERATING SUBSIDIES

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

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

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

The following are the operating subsidies for the years 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Federal	\$ 6,902,527	\$ 5,824,984
State	17,496,400	17,158,400
Other state subsidies	8,672	8,920
Local public subsidies	2,693,437	3,142,168
City of Madison	6,212,924	9,157,264

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

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

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

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

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

NOTE 7 – EMPLOYEES' RETIREMENT SYSTEM

All eligible Metro employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees were required by statute to contribute 6.2% and 5.4% of their salary to the plan in 2010 and 2009, respectively. 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.

	Years Ended December 31		
	2010	2009	2008
Total Covered Metro Payroll	<u>\$ 24,234,532</u>	<u>\$ 25,080,498</u>	<u>\$ 22,960,505</u>
Total Required Contributions	<u>\$ 2,665,799</u>	<u>\$ 2,608,372</u>	<u>\$ 2,433,814</u>
Total Required Contributions (%)	<u>11.0%</u>	<u>10.4%</u>	<u>10.6%</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, 2010 and 2009.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS

The city administers a single-employer defined benefit healthcare plan, (the Retiree Health Plan) in which Metro participates. The Plan provides healthcare coverage to 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, 2010 and 2009

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

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

The city's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the city's annual OPEB cost for 2010:

	Entire City		Metro	
	2010	2009	2010	2009
Annual required contribution	\$ 5,872,509	\$ 6,156,565	\$ 949,120	\$ 905,662
Contributions made	2,565,125	3,912,191	502,458	482,245
Increase in net OPEB obligation	3,307,384	2,244,374	446,662	423,417
Net OPEB Obligation – Beginning of year	8,480,112	6,235,738	1,236,516	813,099
Net OPEB Obligation – End of Year	<u>\$ 11,787,496</u>	<u>\$ 8,480,112</u>	<u>\$ 1,683,178</u>	<u>\$ 1,236,516</u>

The city's and Metro's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the increase in net OPEB obligation for 2010 and 2009 were as follows:

City

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
December 31, 2010	\$ 5,872,509	44%	\$ 11,787,496
December 31, 2009	\$ 6,165,565	64%	\$ 8,480,112
December 31, 2008	\$ 5,460,866	43%	\$ 6,235,738

Metro

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
December 31, 2010	\$ 949,120	53%	\$ 1,683,178
December 31, 2009	\$ 905,662	53%	\$ 1,236,516
December 31, 2008	\$ 885,094	54%	\$ 813,099

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

The funded status of the plan (for the entire city) as of January 1, 2010, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 48,595,464
Actuarial value of plan assets	<u>1,323,273</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 47,272,191</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>2.7%</u>
Covered payroll (active plan members)	<u>\$ 151,200,168</u>
UAAL as a percentage of covered payroll	<u>31.3%</u>

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 7.5% for 2011, reduced by decrements to an ultimate rate of 4.5% for 2017 and beyond. Both rates include a 3.0% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2010, was 26 years.

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 9 – RISK MANAGEMENT

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

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

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

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN (TMI)

The Transit Mutual Insurance Corporation of Wisconsin is a joint effort 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 2010 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, 2010 to December 31, 2010 and contained a combined single limit of \$7,000,000 per accident.

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 members. The city's share of this organization is 38.28%. A list of the other members is available in the TMI Report, which is available from: Transit Mutual Insurance Corporation of Wisconsin, P.O. Box 1772, Appleton, WI 54912-1772..

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 10 – BASIS FOR EXISTING FARES

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

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

We have audited the financial statements of Metro Transit System (Metro) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 30, 2011. 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, 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. As outlined in the report on internal controls to management, we identified no material weakness.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

To the Honorable Mayor and Common Council
Metro Transit System

Compliance and Other Matters

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

Baker Tilly Veitch Krouse LLP

Madison, Wisconsin
June 30, 2011

SUPPLEMENTAL INFORMATION

METRO TRANSIT SYSTEM

OPERATING REVENUES AND EXPENSES

December 31, 2010 and 2009

OPERATING REVENUES	<u>2010</u>	<u>2009</u>
Passenger Fares for Transit Services		
Farebox revenues	\$ 1,296,772	\$ 1,333,841
Adult ticket revenue	813,390	891,540
Student ticket revenue	375,370	335,375
Elderly and handicapped revenue	562,017	539,885
Monthly/Daily Pass revenue	1,168,186	1,083,957
Summer youth passes	23,640	20,850
Easy rider pass - all days	348,385	349,562
UW Student Unlimited Ride Pass agreement revenue	2,755,917	2,488,239
UW/UW Hospital Employee Unlimited Ride Pass agreement	1,522,810	1,429,118
Edgewood College Unlimited Ride Pass agreement	84,539	68,955
MMSD passes	1,198,999	1,127,488
MATC Unlimited Ride Pass agreement	654,808	467,108
City of Madison Employee Unlimited Ride Pass agreement	139,768	118,382
St Marys Unlimited Ride Pass agreement	50,940	45,157
Meriter Unlimited Ride Pass agreement	37,434	29,808
Commuter Pass Unlimited Ride Pass agreement	51,101	-
Total Passenger Fares for Transit Service	<u>11,084,076</u>	<u>10,329,265</u>
Other Operating Revenues		
Advertising revenue	475,375	392,980
Sale of buses, scrap and parts	39,944	44,173
Miscellaneous	73,934	61,261
Dane County - MA Waiver	3,039,057	2,790,825
Dane County - Elderly & Handicapped	140,217	137,532
Dane County - Group Access Service	195,120	168,131
Dane County - Group RSVP Service	78,860	103,087
Dane County - Exceptional Rides	76,373	82,876
Dane County - Common Carrier	102,718	109,695
Dane County - CARE Wisconsin	39,516	72,039
Dane County - Highway (Marketing)	19,280	19,280
Total Other Operating Revenues	<u>4,280,394</u>	<u>3,981,879</u>
Total Operating Revenues	<u>15,364,470</u>	<u>14,311,144</u>
OPERATING EXPENSES		
Operation and Maintenance Expenses		
Employee compensation and benefits		
Salaries and wages	24,789,305	24,758,988
Pensions and benefits	12,212,205	10,938,181
Total Employee Compensation and Benefits	<u>37,001,510</u>	<u>35,697,169</u>
Materials and supplies	4,131,430	5,797,744
Purchased services	7,597,128	6,981,135
Interagency charges	793,575	768,423
Total Operation and Maintenance Expenses	<u>49,523,643</u>	<u>49,244,471</u>
Depreciation expense	6,089,482	5,427,865
Total Operating Expenses	<u>55,613,125</u>	<u>54,672,336</u>
 NET OPERATING LOSS	 <u>\$ (40,248,655)</u>	 <u>\$ (40,361,192)</u>

METRO TRANSIT SYSTEM

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS

December 31, 2010 and 2009

	2010	2009
REVENUES		
401.00 Passenger fares for transit service	\$ 11,084,076	\$ 10,329,265
402.00 Special transit fares - New Year's Eve contributions and other	10,000	10,000
402.10 Service charges, NSF charges, etc.	63,934	51,261
406.00 Auxiliary transportation revenue - advertising	475,375	392,980
407.10 Contra-expense for sale of buses, scrap and parts	39,944	44,173
409.10 Local public subsidies	2,693,437	3,142,168
409.30 City of Madison operating subsidy	6,212,924	9,157,264
409.40 Dane County specialized transportation programs	3,691,141	3,483,465
409.99 MPO Local Subsidy	8,741	10,216
411.00 State cash grants and reimbursements	17,505,072	17,167,320
413.00 Federal cash grants and reimbursements	6,902,527	5,824,984
Total Eligible Revenues	48,687,171	49,613,096
EXPENSES - BY OBJECT CLASS TOTAL		
501.01 Operators' salaries and wages	13,690,644	13,740,168
501.02 Other salaries and wages	7,128,238	6,950,904
502.00 Fringe benefits	16,184,300	15,006,097
503.00 Services	649,908	605,101
504.01 Fuel and lubricants	2,840,364	4,419,140
504.02 Tires and tubes	195,147	169,875
504.99 Other materials and supplies	1,242,077	1,405,363
505.00 Utilities	513,413	603,244
506.00 Casualty and liability costs	897,109	630,666
507.00 Taxes	5,022	4,615
508.00 Purchased transportation	5,109,124	4,670,750
509.00 Miscellaneous expense	106,286	104,491
511.00 Interest expense	406,204	398,553
512.00 Leases and rentals	168,437	165,634
513.00 Depreciation	(6,089,482)	(5,427,865)
Less: Ineligible depreciation on fixed assets	6,089,482	5,427,865
516.00 Other Reconciling Items	793,575	768,422
Total Eligible Expenses	49,929,848	49,643,023
NET INCOME (excluding capital contributions and depreciation on fixed assets)	\$ (1,242,677)	\$ (29,927)

METRO TRANSIT SYSTEM

RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL RECOGNIZED REVENUES AND EXPENSES For the Year Ended December 31, 2010

		Per WisDOT Guidelines
Revenues including subsidies and operating transfer	\$	48,687,171
Less: Non-recognized revenues		
City operating transfer	\$	6,212,924
Local public subsidies		2,693,437
Dane County specialized transportation programs		3,691,141
MPO Local Subsidy		8,741
Other federal subsidy		6,902,527
State operating subsidy		17,505,072
Nontransportation revenues		
Sale of buses, scrap and parts		39,944
Service charges, NSF charges, etc.		63,934
Total Non-Recognized Revenues		37,117,720
WisDOT Eligible Operating Revenues	\$	11,569,451
Total Expenses per statement including interest expense	\$	56,019,330
Add: Fixed assets eligible for operating assistance		-
Total Expenses	\$	56,019,330
Less: Non-recognized expenses		
Depreciation		6,089,482
Interest expense		406,204
Bad debts		-
Offset of scrap sales and miscellaneous reimbursements		103,878
Capital Maintenance Grant @ 100%		8,628,159
Leases and rentals		168,437
Interagency indirect charges without approved allocation plan (excludes MPO of \$44,996)		748,579
Total WisDOT Non-Recognized Expenses		16,144,739
WisDOT Eligible Operating Expenses	\$	39,874,591
WisDOT Recognized Deficit	\$	(28,305,140)
Less Operating revenues ineligible for federal assistance: Advertising revenue		475,375
Federal Recognized Deficit	\$	(27,829,765)

METRO TRANSIT SYSTEM

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS For the Year Ended December 31, 2010

STATE FUNDS

WisDOT Recognized Deficit	<u>\$ 28,305,140</u>	
WisDOT Contract Amount	<u>\$ 17,496,400</u>	
City of Madison and Other Local Subsidies	<u>\$ 8,915,102</u>	
5 Times Operating Subsidy	<u>\$ 44,575,510</u>	
State Share - Least of the Three		<u>\$ 17,496,400</u>

FEDERAL FUNDS

Federally Recognized Deficit	<u>\$ 27,829,765</u>	
50% of Federal Deficit		<u>\$ 13,914,883</u>
Federal Recognized Deficit	<u>\$ 27,829,765</u>	
Less: State share	<u>(17,496,400)</u>	
Non-State Share		<u>\$ 10,333,365</u>
Maximum Federal Share Per Grant Award	<u>\$ 6,902,527</u>	
Federal Share - Least of the Three		<u>\$ 6,902,527</u>

SUMMARY OF FUNDING (2010 only)

	<u>Received in 2010</u>	<u>Receivable 12/31/10</u>	<u>Totals</u>
Federal Operating Funds	\$ -	\$ -	\$ -
Federal Capital Maintenance	5,824,208	1,078,319	6,902,527
State Funds	13,122,300	4,374,100	17,496,400
Local Public Subsidies	2,668,871	24,566 *	2,693,437
MPO Local Subsidy	8,741	-	8,741
City of Madison	<u>6,212,924</u>	<u>-</u>	<u>6,212,924</u>
Total Funding	<u>\$ 27,837,044</u>	<u>\$ 5,476,985</u>	<u>\$ 33,314,029</u>

* Shown net of amount due to other communities of \$303,916.