

METRO TRANSIT SYSTEM

An Enterprise Fund of the
City of Madison, Wisconsin

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

METRO TRANSIT SYSTEM

An Enterprise Fund of the City of Madison, Wisconsin

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Metro Transit System, an enterprise fund of the City of Madison, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metro Transit System as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Metro Transit System enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Madison, as of December 31, 2018 and 2017 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the Metro Transit System adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 19, 2019

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, 2018 and 2017.

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

Mission

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

Metro provides extensive fixed route and ADA paratransit service in a 72 square mile regional service area with a population of 253,075 and also provides contributions to Dane County for the delivery of Group Access Services (providing transportation of the elder to meal-sites), and Volunteer Driver Escort programs in the Metro service area. Metro is an Enterprise Fund of the City of Madison. Local investment partners are the Cities of Fitchburg, Middleton, and Verona, Town of Madison, Madison Area Technical College, Madison Metropolitan School District, the University of Wisconsin-Madison, the University of Wisconsin Hospital East, and the Village of Shorewood Hills. In 2018 Metro worked with Sun Prairie staff to be a new city partner with Metro in 2019, which has now been approved for new services starting in August. Unlimited ride pass program participants include the UW-Madison, Madison College, Edgewood College, St. Mary's and Meriter Hospitals and the City of Madison.

Annual Overview

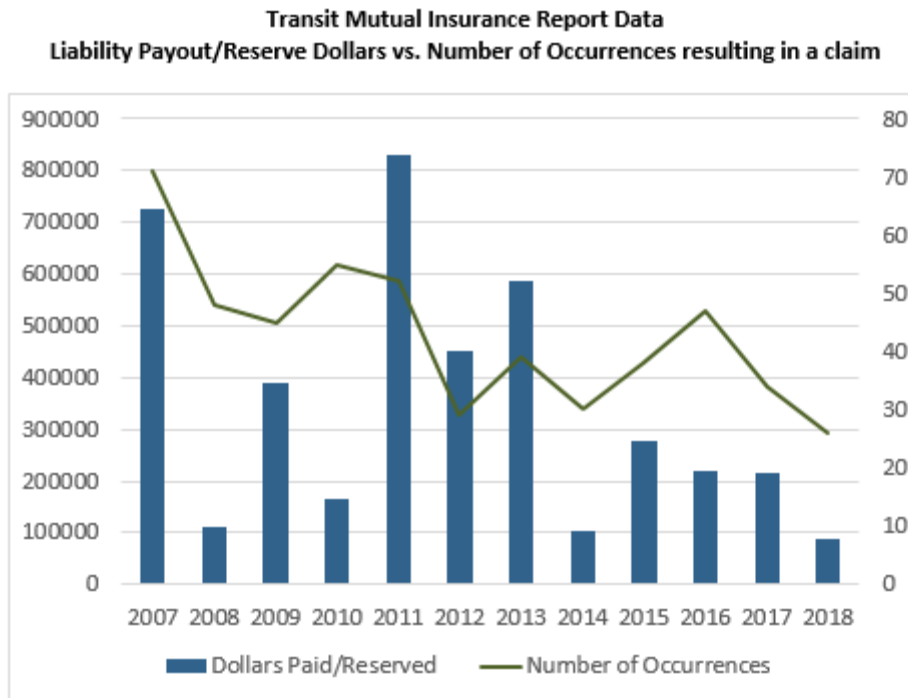
Metro's 2018 bus ridership was 13.2 million, up 3.2% from the previous year. Paratransit ridership had a decrease of 46.8% from 291,000 to 155,000 rides in 2018, due to the implementation of Family Care. There are now several national studies documenting the drop in the transit ridership across the U.S., which cite the sustained drop in gasoline prices to about \$2.50 per gallon, the strong economy contributing to increases in auto ownership and auto driving, and the increase in ridership on Transportation Network Companies (ie., Uber and Lyft) which have more than offset national decreases in traditional taxi and transit ridership for the past several years. Nationally, bus systems Metro's size dropped 1.1% and demand response was up 2.2% in 2018 over 2017. Since the trend in reduced bus ridership started, a passenger survey in Madison in 2015 indicated overcrowding on buses was still the #1 customer concern, so it may be working alongside other trends to cause the overall ridership drop. Finally, Metro Transit has now been turning down requests for additional peak hour services for four years or more from a growing numbers of private sector, academic, and municipal sources. Because Metro is unable to meet the peak hour adjustments associated with MMSD's middle school time changes to improve student

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

performance, a plan is underway to reduce Metro services to middle schools. Metro is using this shift to accommodate services like Sun Prairie starting in 2019. This is not a sustainable method to deal with overcrowding on buses and demands for new peak hour services, so Metro continues to focus on building a satellite facility and design BRT to address capacity needs, without which the ability to increase ridership is limited.

2018 was another year of keeping accidents and insurance payouts at historical lows compared to the past 10 years, as the attached chart shows. This trend reflects greater emphasis on refresher training and the use of cameras to evaluate bus accidents for future prevention and claims cost control. This long term trend is resulting in a return of excess surplus from our insurance company to Metro of approximately \$800,000 over a 5 year period.



On the facility front, in 2018 Metro Transit received a significant increase in the engineering cost estimate for Nakoosa Trail as a satellite facility, which caused the city's focus to shift to alternative satellite sites. The City Council recently authorized negotiations for a portion of the old Oscar Mayer site near Aberg Avenue and the North Transfer Point, and Real Estate staff are leading that process with the new owner.

Meanwhile, Metro's existing (1101 E. Wash) bus garage upgrade was studied by Mead and Hunt, while overseen by City Engineering and Metro. The study points to a 5 phase plan over the next 5 years, which totals \$57 million for the 5 phases, with the first phase costing \$7

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

million. This is now included in the approved Capital Improvement Plan for the City of Madison/Metro Transit. By 2018 the replacement roof project was mostly finished and the first phase will start in the spring of 2019 to ready the garage for electric buses, move the service lane to improve efficiency, and undertake other fire and safety upgrades.

The year 2018 saw fundamental changes in the way Metro provides paratransit services, driven by the implementation of Family Care, a state human services delivery model that eliminates \$3.9 million in operational funding to Metro and allocates those dollars to Family Care related agencies for various service deliveries with the goal of increased efficiency and elimination of the waiting list for hundreds of clients with disabilities. Dane County was the last of 78 counties in the state to make this change, in part because of the high quality of transportation services used by people with developmental disabilities over the past 20 years.

The resulting ridership changes are reflected in the next chart, which shows a ridership drop, as noted earlier, from 291,000 in 2017 to 155,000 in 2018. The chart shows an actual increase in January, consistent with a previous long term trend, and then as Family Care started to be implemented in February there are steadily larger drops in ridership peaking at a 67% drop in December, and ending the year 47% below the previous year. Due to the cutback in operations funding and the ongoing limits on federal transit capital funding, Metro completely phased out directly operated paratransit services effective August 10, 2018 and now all ADA paratransit services are met by contracted providers. The employees at Metro in paratransit were all offered new job placements and other than several retirements, one shift to another city department, the rest stayed at Metro Transit in fixed route operations or maintenance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

2017 to 2018 Ridership Comparison

The impact of Family Care implementation in Dane County can be seen in the comparative data.

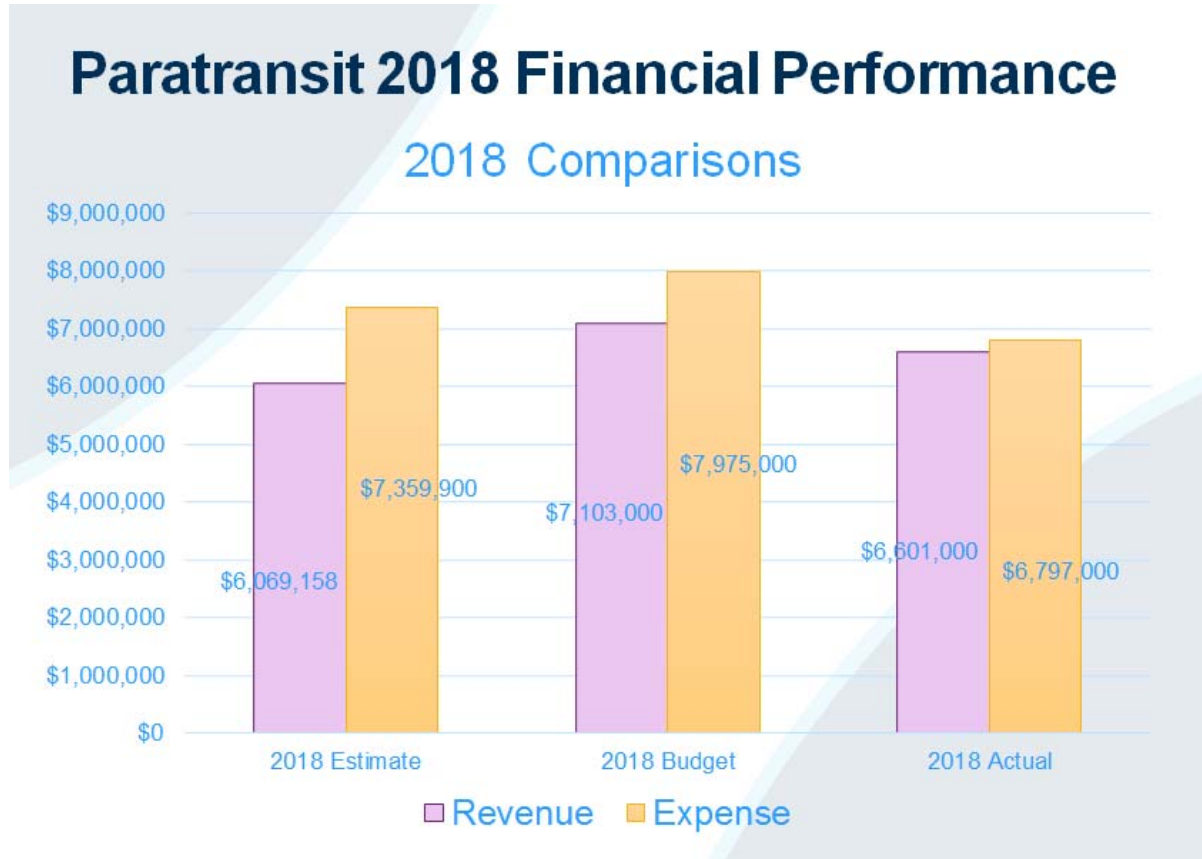
Family Care transition occurred from February to May in 2018.

Month	2017 Ridership	2018 Ridership	Percent Change
January	22,500	24,320	8%
February	24,242	20,427	-16%
March	26,745	17,681	-34%
April	23,401	13,420	-43%
May	25,055	11,458	-54%
June	24,375	9,931	-59%
July	22,317	9,836	-56%
August	25,126	9,846	-61%
September	23,863	9,077	-62%
October	26,292	10,455	-60%
November	24,486	9,622	-61%
December	22,616	8,857	-61%
TOTAL	291,018	154,930	-47%



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The chart above shows (a) the 2018 Metro paratransit expense and revenue estimates, (b) the 2018 City of Madison/Metro Transit adopted paratransit budgets for expenses and revenues, and (c) the 2018 audited actual expenses and revenues. Despite the volatility of the changes in paratransit, expenses and revenues came in under budget because of the actual larger ridership drop than expected (47% vs. 33%), the reduced payments to contracted providers, but offset by the increase in agency fare ticket revenues for Family Care clients using Metro paratransit service. Also, certain revenue categories like federal operating and state operating allocations were adjusted at the end of the year and reviewed in the annual audit to reflect the actual ridership drop.

Another major financial development in 2018 was the approval of the 2019 capital budget in November, which includes 100% local funding to upgrade our existing bus garage, 100% local funding to purchase and upgrade a satellite facility at Oscar Mayer, and about 50% local funding for new buses. This is a dramatic shift from the 20+ year trend where Metro assumptions always were to get 80% federal funding for capital projects, and that assumption is now officially outdated and irrelevant. Expansion investments for BRT will take an even greater contribution, and local decisions under discussion currently for the 2020 capital budget will determine just how able we are to invest in expansion. The bicycle community uses a “platinum” goal based on a national standard, which it has achieved recently. If transit

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had such national standards Metro might be at “silver” and without the ability to expand probably could not achieve “gold” or “platinum.”

Financially, Metro finished the year with a positive contribution to reserves, adding about \$1,000,000 to the contingency fund level. These funds have helped to move forward with engineering and design work at Metro’s proposed expansion facility (Nakoosa, now Oscar) and with work at our existing bus garage for safety, health, and other essential operational efficiency upgrades. Contributing factors to the contingency increase include better than expected advertising and paratransit ticket revenues.

Year	Beginning Balance	Reserves +/-	Ending Balance
2013	\$784,150	\$1,889,142	\$2,673,292
2014	\$2,673,292	\$2,342,141	\$5,015,433
2015	\$5,015,433	\$2,435,984	\$7,451,417
2016	\$7,451,417	(\$4,065,171)	\$3,386,246
2017	\$3,386,246	\$300,575	\$3,686,821
2018	\$3,686,821	\$1,024,367	\$4,711,188

2018 Detailed Financial Highlights

A breakdown of revenues and expenses by mode is shown in the following chart detailing how Metro ended the year with about a \$1,000,000 contribution to the reserve level.

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

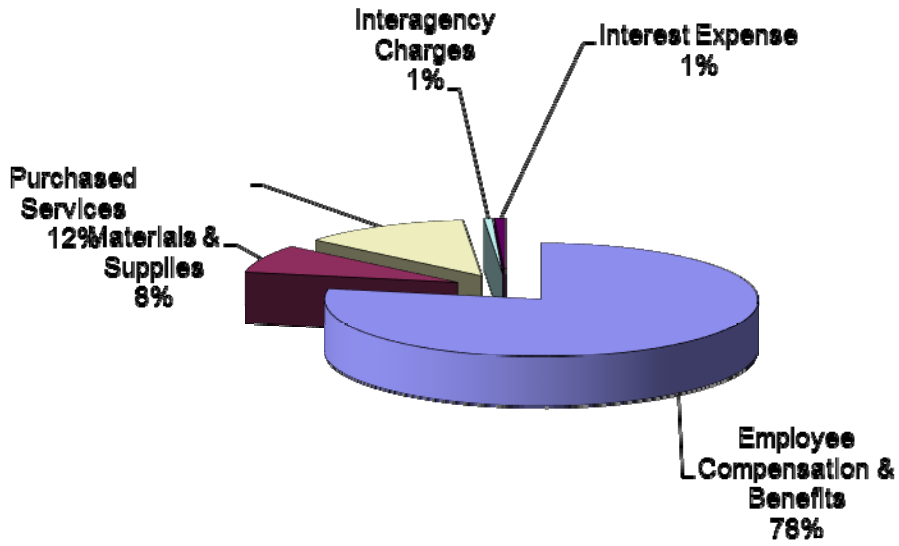
Madison Metro Transit							
Income Statement							
For the Year Ended December 31, 2018							
		All Modes		Fixed Route		Paratransit	
		Actual	Budget	Actual	Budget	Actual	Budget
<u>Revenue</u>							
Farebox		\$ 1,518,848	\$ 2,250,000	\$ 1,518,848	\$ 1,500,000	\$ -	\$ 750,000
Passes & Tickets		\$ 6,228,401	\$ 5,105,000	\$ 4,621,278	\$ 5,105,000	\$ 1,607,123	\$ -
Unlimited Ride Programs		\$ 6,522,627	\$ 6,754,000	\$ 6,490,244	\$ 6,724,000	\$ 32,383	\$ 30,000
Passenger Revenue		\$ 14,269,876	\$ 14,109,000	\$ 12,630,370	\$ 13,329,000	\$ 1,639,506	\$ 780,000
County Programs		\$ 1,010,735	\$ 1,355,345	\$ -	\$ -	\$ 1,010,735	\$ 1,355,345
Federal Operating Assistance		\$ 6,299,461	\$ 6,300,000	\$ 5,669,515	\$ 5,670,000	\$ 629,946	\$ 630,000
State Operating Assistance		\$ 17,357,996	\$ 17,360,000	\$ 15,448,616	\$ 15,450,400	\$ 1,909,380	\$ 1,909,600
Local Subsidies		\$ 3,721,269	\$ 3,810,000	\$ 3,423,567	\$ 3,505,200	\$ 297,702	\$ 304,800
Other Subsidies		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advertising		\$ 832,920	\$ 500,000	\$ 832,920	\$ 500,000	\$ -	\$ -
Miscellaneous		\$ 744,466	\$ 145,511	\$ 744,466	\$ 145,511	\$ -	\$ -
Total Revenue		\$ 44,236,723	\$ 43,579,856	\$ 38,749,454	\$ 38,600,111	\$ 5,487,269	\$ 4,979,745
<u>Expenditures</u>							
Salaries		\$ 29,517,961	\$ 27,951,892	\$ 27,747,676	\$ 26,568,657	\$ 1,770,285	\$ 1,383,235
Benefits		\$ 13,475,618	\$ 13,637,591	\$ 12,667,081	\$ 12,955,711	\$ 808,537	\$ 681,880
Utilities/Telephone		\$ 485,926	\$ 551,000	\$ 456,770	\$ 523,450	\$ 29,156	\$ 27,550
Repairs & Maint B&G		\$ 229,820	\$ 174,000	\$ 216,031	\$ 165,300	\$ 13,789	\$ 8,700
Repairs & Maint Equip		\$ 625,160	\$ 500,000	\$ 587,650	\$ 475,000	\$ 37,510	\$ 25,000
Rentals		\$ 513,767	\$ 460,000	\$ 482,941	\$ 437,000	\$ 30,826	\$ 23,000
Employee Services		\$ 68,293	\$ 72,000	\$ 64,195	\$ 68,400	\$ 4,098	\$ 3,600
Insurance & Financial		\$ 1,458,550	\$ 1,458,528	\$ 1,371,037	\$ 1,385,602	\$ 87,513	\$ 72,926
Purchased Transportation		\$ 3,397,271	\$ 5,280,345	\$ -	\$ -	\$ 3,397,271	\$ 5,280,345
Other Services		\$ 231,990	\$ 443,200	\$ 218,101	\$ 421,040	\$ 13,889	\$ 22,160
Office Supplies		\$ 82,452	\$ 201,000	\$ 77,505	\$ 190,950	\$ 4,947	\$ 10,050
Equipment Supplies		\$ 1,374,631	\$ 1,545,000	\$ 1,292,153	\$ 1,467,750	\$ 82,478	\$ 77,250
Bldg & Const Supplies		\$ 159,656	\$ 246,000	\$ 150,077	\$ 233,700	\$ 9,579	\$ 12,300
Fuels, Oils & Lubricants		\$ 2,343,817	\$ 2,251,000	\$ 2,203,188	\$ 2,138,450	\$ 140,629	\$ 112,550
Other Supplies		\$ 245,029	\$ 237,000	\$ 230,327	\$ 225,150	\$ 14,702	\$ 11,850
Interdepartmental Charges		\$ 338,979	\$ 357,129	\$ 318,640	\$ 339,273	\$ 20,339	\$ 17,856
Depreciation		\$ 6,786,877	\$ 6,750,000	\$ 6,481,468	\$ 6,547,500	\$ 305,409	\$ 202,500
Interest		\$ 433,853	\$ 406,085	\$ 407,822	\$ 385,781	\$ 26,031	\$ 20,304
Total Expenses		\$ 61,769,650	\$ 62,521,770	\$ 54,972,662	\$ 54,528,714	\$ 6,796,988	\$ 7,993,056
Income(Deficit)		\$ (17,532,927)	\$ (18,941,914)	\$ (16,223,208)	\$ (15,928,603)	\$ (1,309,719)	\$ (3,013,311)
Less: Depreciation		\$ (6,786,877)	\$ (6,750,000)	\$ (6,481,468)	\$ (6,547,500)	\$ (305,409)	\$ (202,500)
Less: Unfunded OPEB		\$ (712,538)	\$ (712,538)	\$ (669,786)	\$ (676,911)	\$ (42,752)	\$ (35,627)
Less: Unfunded Pension		\$ (463,115)	\$ (463,115)	\$ (435,328)	\$ (439,959)	\$ (27,787)	\$ (23,156)
Debt		\$ 1,780,824	\$ 1,780,824	\$ 1,727,399	\$ 1,727,399	\$ 53,425	\$ 53,425
Fixed Assets		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Portion of Fixed Assets		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenditures (City)		\$ 55,587,944	\$ 56,376,941	\$ 49,113,479	\$ 48,591,743	\$ 6,474,465	\$ 7,785,198
Added To/(Taken From)Reserves		\$ 1,024,284	\$ (427,636)	\$ 897,685	\$ 250,272	\$ 126,599	\$ (677,908)
Income/(Deficit) (City)		\$ (12,375,505)	\$ (12,369,449)	\$ (11,261,710)	\$ (10,241,904)	\$ (1,113,795)	\$ (2,127,545)

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

As can be seen from the following chart, employee compensation and benefits accounted for 78% of total expenses excluding depreciation in 2018, compared to 74% in 2017.

2018 Expenses excluding Depreciation

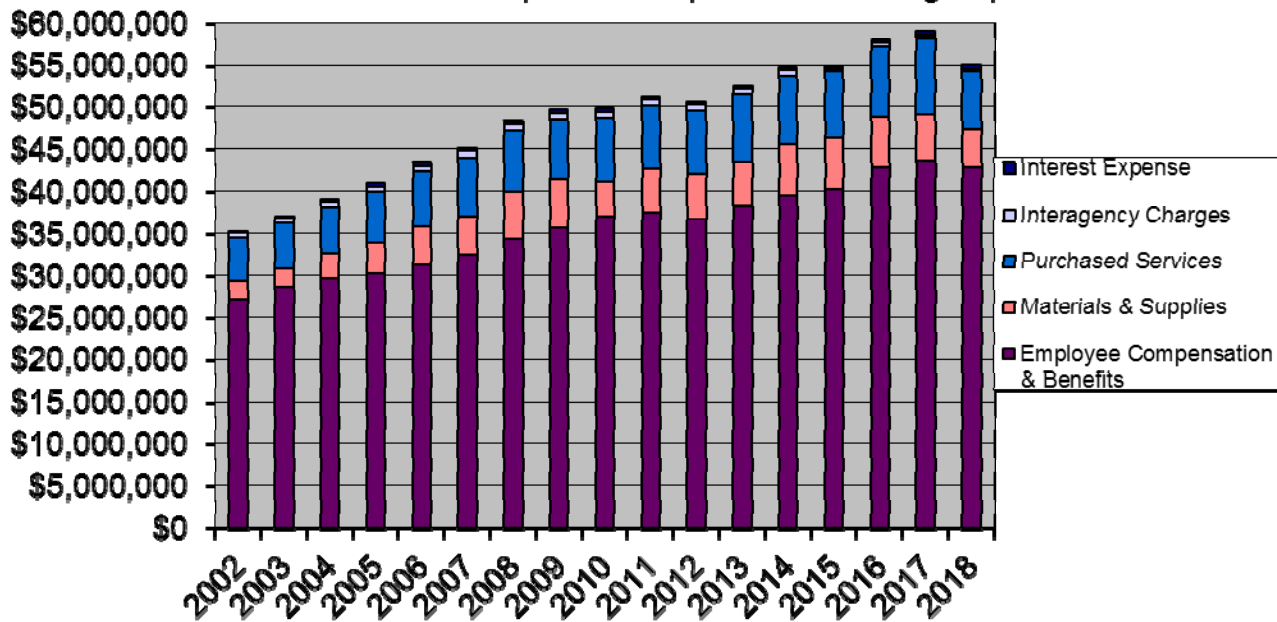


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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

The first of the following charts shows that total operating expenses decreased by 6.6% between 2017 and 2018, due primarily to the significant decrease in paratransit service. Between 2013 and 2018 Metro experienced an average increase in total operating costs of 0.9% per year. The second chart compares Metro's revenue sources for the same period of time. Passenger revenue has increased by an average of 0.3% per year during the last 5 years and state aid, which provides the largest portion of Metro's revenue, increased 1.0% per year during the same time period.

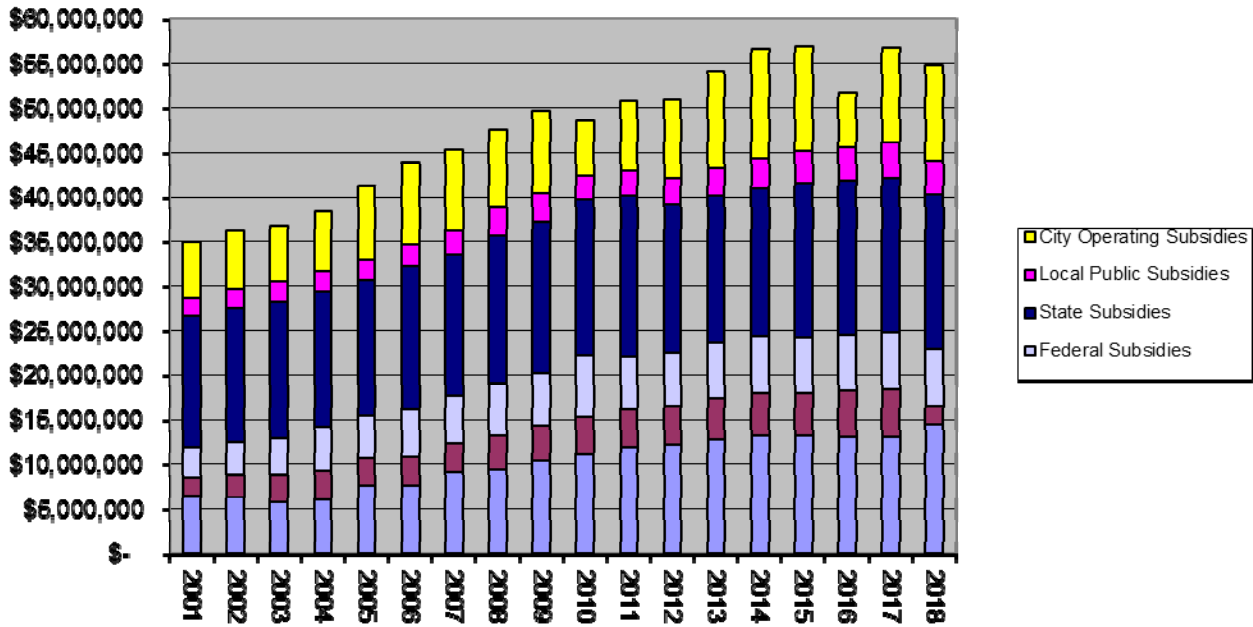
**Madison Metro Transit
Historical Expense Comparison Excluding Depreciation**



METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit Historical Revenue Comparison



METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

GRANT STATUS

Despite the early comments on the cutbacks in federal funding, it is still worth noting that Metro is fortunate to have federal support for capital funding for rolling stock (buses), ITS hardware/software, transit enhancements, facilities improvements and other capital projects. The following chart shows the year-end grant status of each grant against which expenditures were charged during the year. Note that where balances are available as of 12/31/18 future capital project plans are budgeted to draw down those balances.

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit									
Year End Grant Status as of 12/31/18									
Note: All amounts listed are "Eligible Funds" at 100 % of cost not the FTA or State amount.									
CAPITAL GRANTS	Funding Year	Total Funds Apportionment	Prior years expenditures	Beginning Balance	2018 expenditures	Balance available as of 12/31/18	Future Budgeted projects	Balance after budgeted projects	Detail of future budgeted projects- see page 2.
Federal Section 5307									
WI900595	2013	\$ 8,903,040	\$ 8,897,976	\$ 5,064	\$ 5,064	\$ -	\$ -	\$ -	Closed
WI900765	2014	\$ 9,637,895	\$ 9,084,545	\$ 553,350	\$ 501,920	\$ 51,430	\$ 51,430	\$ -	Transit Enhancements
WI-2016-003	2015	\$ 9,366,279	\$ 8,746,708	\$ 619,571	\$ 332,786	\$ 286,785	\$ 286,785	\$ -	Various
WI-2016-028	2016	\$ 10,158,596	\$ 9,119,989	\$ 1,038,607	\$ 1,038,607	\$ -	\$ -	\$ -	Closed
WI-2017-030	2017	\$ 9,915,670	\$ 7,562,330	\$ 2,353,340	\$ 2,136,582	\$ 216,758	\$ 216,758	\$ -	Various
WI-2018-024	2018	\$ 10,319,810	\$ -	\$ 10,319,810	\$ 7,744,935	\$ 2,574,875	\$ 2,574,875	\$ -	Various
FFY 2019 (estimate)	2019	\$ 9,649,851	\$ -	\$ 9,649,851	\$ -	\$ 9,649,851	\$ 9,649,851	\$ -	Various
Total Section 5307		\$ 67,951,141	\$ 43,411,548	\$ 24,539,593	\$ 11,759,894	\$ 12,779,699	\$ 12,779,699	\$ -	
Federal Section 5310									
WI-2017-010	2017	\$ 320,915	\$ 301,809	\$ 19,106	\$ 19,106	\$ -	\$ -	\$ -	Closed
WI-2018-009	2018	\$ 482,025	\$ -	\$ 482,025	\$ 366,958	\$ 115,067	\$ 115,067	\$ -	Mobility management
FFY 2019 (estimate)	2019	\$ 365,843	\$ -	\$ 365,843	\$ -	\$ 365,843	\$ 365,843	\$ -	Mobility management
Total Section 5310		\$ 1,168,783	\$ 301,809	\$ 866,974	\$ 386,064	\$ 480,910	\$ 480,910	\$ -	
Federal Section 5337 & 5339a									
WI-2017-030	2017	\$ 1,976,149	\$ -	\$ 1,976,149	\$ 1,976,149	\$ -	\$ -	\$ -	Buses
WI-2018-024	2018	\$ 2,462,374	\$ -	\$ 2,462,374	\$ -	\$ 2,462,374	\$ 2,462,374	\$ -	Buses
FFY 2019 (estimate)	2019	\$ 2,334,648	\$ -	\$ 2,334,648	\$ -	\$ 2,334,648	\$ 2,334,648	\$ -	Buses
Total Section 5337 & 5339a		\$ 6,773,171	\$ -	\$ 6,773,171	\$ 1,976,149	\$ 4,797,022	\$ 4,797,022	\$ -	
Federal Section 5339c Low-No									
WI-2018-012 (FTA discretionary)	2017	\$ 1,497,000	\$ -	\$ 1,497,000	\$ 74,500	\$ 1,422,500	\$ 1,422,500	\$ -	Electric Bus Deployment project
Total Section 5339c Low-No		\$ 1,497,000	\$ -	\$ 1,497,000	\$ 74,500	\$ 1,422,500	\$ 1,422,500	\$ -	
Total Capital Grants		\$ 77,390,095	\$ 43,713,357	\$ 33,676,738	\$ 14,196,607	\$ 19,480,131	\$ 19,480,131	\$ -	
OTHER GRANTS									
WI260012	2006	\$ 1,980,000	\$ 257,329	\$ 1,722,671	\$ 42,103	\$ 1,680,568	\$ 1,680,568	\$ -	Preferred alternative study
WI390002	2007	\$ 1,500,000	\$ 152,718	\$ 1,347,282	\$ 4,678	\$ 1,342,604	\$ 1,342,604	\$ -	Preferred alternative study
WI791001 (TIGER VI)	2014	\$ 600,000	\$ 493,610	\$ 106,390	\$ 34,622	\$ 71,768	\$ -	\$ 71,768	Closed and remaining funds deobligated
Total Other Grants		\$ 4,080,000	\$ 903,657	\$ 3,176,343	\$ 81,403	\$ 3,094,940	\$ 3,023,172	\$ 71,768	

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

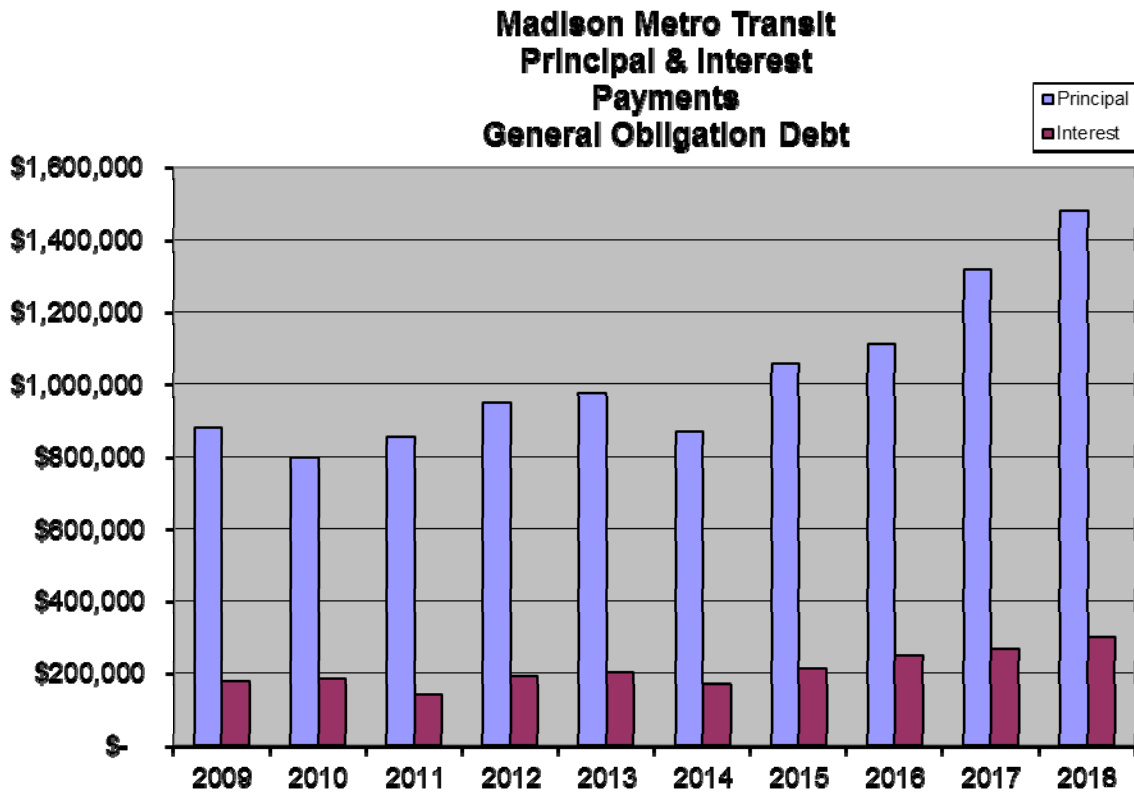
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Year End Grant Status as of 12/31/18									
Note: All amounts listed are "Eligible Funds" at 100 % of cost not the FTA or State amount.									
CAPITAL GRANTS	Funding Year	Transit Enhancements	Equipment	Facility	Computer hardware & software	Mobility management	Consultants	Buses -Fixed Route	Associated capital maintenance
Federal Section 5307									
WI900595	2013								
WI900765	2014	\$ 51,430							
WI-2016-003	2015	\$ 93,663			\$ 193,122				
WI-2016-028	2016								
WI-2017-030	2017			\$ 216,758					
WI-2018-024	2018			\$ 550,000				\$ 2,024,875	
FFY 2019 (estimate)	2019			\$ 500,000				\$ 1,524,851	\$ 7,625,000
Total Section 5307		\$ 145,093	\$ -	\$ 1,266,758	\$ 193,122		\$ -	\$ 3,549,726	\$ 7,625,000
Federal Section 5310									
WI-2017-010	2017								
WI-2018-009	2018					\$ 115,067			
FFY 2019 (estimate)	2019					\$ 365,843			
Total Section 5310		\$ -	\$ -	\$ -	\$ -	\$ 480,910	\$ -	\$ -	\$ -
Federal Section 5337 & 5339a									
WI-2017-030	2017								
WI-2018-024	2018							\$ 2,462,374	
FFY 2019 (estimate)	2019							\$ 2,334,648	
Total Section 5337 & 5339a		\$ -	\$ -	\$ -	\$ -		\$ -	\$ 4,797,022	\$ -
Federal Section 5339c Low-No									
WI-2018-012 (FTA discretionary)	2017		\$ 310,000		\$ 7,000		\$ 354,500	\$ 751,000	
Total Section 5339c Low-No		\$ -	\$ 310,000	\$ -	\$ 7,000		\$ 354,500	\$ 751,000	\$ -
Total Capital Grants		\$ 145,093	\$ 310,000	\$ 1,266,758	\$ 200,122	\$ 480,910	\$ 354,500	\$ 9,097,748	\$ 7,625,000
OTHER GRANTS									
WI260012	2006						\$ 1,680,568		
WI390002	2007						\$ 1,342,604		
WI791001 (TIGER VI)	2014								
Total Other Grants		\$ -	\$ -	\$ -	\$ -		\$ 3,023,172	\$ -	\$ -

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Borrowing

As is shown in the information provided below, Metro's debt through the City's General Obligation borrowing (G.O. debt) has been kept to manageable levels. Most borrowing is related to capital purchases where 50 to 80 per cent of funding is derived from federal grant sources and the balance from local borrowing. The City has a AAA bond rating. The City carefully manages the borrowing and debt service.



METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

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 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.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Table 1

Condensed Statements of Net Position

	2018	2017	2016
Current and Other Assets	\$ 20,785,222	\$ 15,566,535	\$ 15,285,215
Capital Assets ¹	<u>44,598,932</u>	<u>41,999,316</u>	<u>41,216,850</u>
Total Assets	<u>65,384,154</u>	<u>57,565,851</u>	<u>56,502,065</u>
Deferred Outflows related to Pensions ²	<u>10,134,380</u>	<u>12,288,157</u>	<u>17,033,374</u>
Long-Term Debt ³	14,715,733	12,543,022	12,111,118
Other Liabilities	<u>20,725,362</u>	<u>18,280,600</u>	<u>19,150,187</u>
Total Liabilities	<u>35,441,095</u>	<u>30,823,622</u>	<u>31,261,305</u>
Deferred Inflows related to Pensions ²	<u>10,429,930</u>	<u>5,144,658</u>	<u>6,489,389</u>
Deferred Inflows related to other post-employment benefits	<u>861,412</u>	<u>-</u>	<u>-</u>
Net Investment in Capital			
Assets ⁴	32,718,435	33,131,986	33,158,040
Restricted Net Position related to pensions	5,440,545		
Unrestricted (Deficit)	<u>(9,372,883)</u>	<u>753,742</u>	<u>2,626,705</u>
Total Net Position	<u>\$ 28,786,097</u>	<u>\$ 33,885,728</u>	<u>\$ 35,784,745</u>

¹ See Note 2 for details in this Audit report

² See Note 7 for details in this Audit report

³ See Note 4 for details in this Audit report

⁴ See Note 1 for details in this Audit report

METRO TRANSIT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2018	2017	2016
Operating Revenues	\$ 16,654,793	\$ 18,503,174	\$ 18,328,051
Depreciation Expense	6,786,877	6,478,867	6,367,349
Other Operating Expenses	54,584,003	58,480,207	57,682,842
Non-operating Expenses ¹	<u>433,853</u>	<u>385,859</u>	<u>385,874</u>
Total Expenses	<u>61,804,733</u>	<u>65,344,933</u>	<u>64,436,065</u>
Operating Subsidies ¹	27,359,426	27,756,527	27,269,559
Insurance Recovery	65,413	183,252	10,467
Loss Before Capital			
Contributions and Transfers	(17,725,101)	(18,901,980)	(18,827,988)
Capital Contributions ²	6,332,193	6,440,907	5,909,365
Transfers	<u>10,889,415</u>	<u>10,562,056</u>	<u>6,252,167</u>
Changes in Net Position	<u>(503,493)</u>	<u>(1,899,017)</u>	<u>(6,666,456)</u>
Beginning Net Position - Restated	29,289,590	35,784,745	42,451,201
Ending Net Position	<u>\$ 28,786,097</u>	<u>\$ 33,885,728</u>	<u>\$ 35,784,745</u>

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

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

³ See Note 12 for details in this Audit report

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Request for Information

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

ckamp@cityofmadison.com.

Respectfully submitted

A handwritten signature in cursive script that reads "Charles L. Kamp".

Charles L. Kamp
Metro Transit General Manager

Statements of Net Position Follows

METRO TRANSIT SYSTEM

STATEMENTS OF NET POSITION December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 5,162,479	\$ 6,680,022
Restricted cash - retiree health insurance escrow	328,513	418,513
Receivable from FTA - capital and maintenance	5,062,737	2,345,836
Receivable from other governmental units	1,737,478	3,386,006
Accounts receivable (net)	948,297	685,335
Materials and supplies (net)	311,814	342,979
Prepaid expenses	554,175	566,867
Current portion of prepaid expense - land and tower lease	3,595	22,059
Total Current Assets	<u>14,109,088</u>	<u>14,447,617</u>
NON-CURRENT ASSETS		
Restricted cash - retiree health insurance escrow	1,215,267	1,095,001
Restricted net pension asset	5,440,545	-
Other Assets		
Prepaid expenses - land and tower lease	20,322	23,917
Capital Assets		
Transit plant in service	117,496,054	113,915,831
Accumulated depreciation	(72,971,622)	(72,101,886)
Construction work in progress	74,500	185,371
Total Non-Current Assets	<u>51,275,066</u>	<u>43,118,234</u>
Total Assets	<u>65,384,154</u>	<u>57,565,851</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	<u>10,134,380</u>	<u>12,288,157</u>

LIABILITIES

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Current portion of general obligation debt	\$ 1,732,731	\$ 1,480,034
Current portion of advance from other funds	330,332	300,791
Current portion of unearned revenue - land and tower lease	3,595	16,004
Accounts payable	1,629,305	1,685,608
Unearned revenue	972,282	956,546
Accrued compensation, vacation and sick leave	2,340,837	2,992,696
Accrued interest	124,233	96,465
Retiree health insurance escrow payable from restricted assets	328,513	418,513
Total Current Liabilities	<u>7,461,828</u>	<u>7,946,657</u>
NON-CURRENT LIABILITIES		
General obligation debt	10,456,720	8,235,915
Advance from other funds	2,195,950	2,526,282
Retiree health insurance escrow payable from restricted assets	1,215,267	1,095,001
Accrued sick leave	3,962,414	3,528,738
Deposits from other governments	276,152	526,543
Net pension liability	-	1,535,389
Other post-employment benefit liability / obligation	9,852,442	5,405,180
Unearned revenue - land and tower lease	20,322	23,917
Total Non-Current Liabilities	<u>27,979,267</u>	<u>22,876,965</u>
 Total Liabilities	 <u>35,441,095</u>	 <u>30,823,622</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	10,429,930	5,144,658
Deferred inflows related to other post-employment benefits	861,412	-
Total Deferred Inflows of Resources	<u>11,291,342</u>	<u>5,144,658</u>
 NET POSITION		
Net investment in capital assets	32,718,435	33,131,986
Restricted net position related to pensions	5,440,545	-
Unrestricted (Deficit)	<u>(9,372,883)</u>	<u>753,742</u>
 TOTAL NET POSITION	 <u>\$ 28,786,097</u>	 <u>\$ 33,885,728</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES	\$ 16,654,793	\$ 18,503,174
OPERATING EXPENSES		
Employee compensation and benefits	42,880,871	43,584,469
Materials and supplies	4,471,350	5,430,356
Purchased services	6,892,803	9,131,812
Interagency charges	<u>338,979</u>	<u>333,570</u>
Total Operation and Maintenance Expenses	54,584,003	58,480,207
Depreciation expense	<u>6,786,877</u>	<u>6,478,867</u>
Total Operating Expenses	<u>61,370,880</u>	<u>64,959,074</u>
Operating Loss	<u>(44,716,087)</u>	<u>(46,455,900)</u>
OPERATING SUBSIDIES		
Federal subsidies	6,509,275	6,582,042
Federal subsidies pass-through to sub recipient	(209,814)	(286,106)
State operating subsidies	17,357,996	17,414,239
Local public subsidies	<u>3,701,969</u>	<u>4,046,352</u>
Total Operating Subsidies	<u>27,359,426</u>	<u>27,756,527</u>
NON-OPERATING REVENUES (EXPENSES)		
Insurance recoveries	65,413	183,252
Interest expense	<u>(433,853)</u>	<u>(385,859)</u>
Loss Before Contributions and Transfers	<u>(17,725,101)</u>	<u>(18,901,980)</u>
CAPITAL CONTRIBUTIONS - CITY & OTHER	1,480,034	1,318,375
CAPITAL CONTRIBUTIONS - FEDERAL & STATE	4,852,159	5,122,532
TRANSFERS IN - CITY OPERATING SUBSIDIES	<u>10,889,415</u>	<u>10,562,056</u>
Total Contributions and Transfers	<u>17,221,608</u>	<u>17,002,963</u>
CHANGE IN NET POSITION	(503,493)	(1,899,017)
NET POSITION - Beginning of Year - Restated	<u>29,289,590</u>	<u>35,784,745</u>
NET POSITION - End of Year	<u>\$ 28,786,097</u>	<u>\$ 33,885,728</u>

See accompanying notes to financial statements.

Statements of Cash Flows Follows

METRO TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 18,751,009	\$ 19,235,066
Paid to suppliers for goods and services	(24,742,458)	(26,884,474)
Paid to employees for services	(29,705,878)	(29,023,836)
Cash Flows from Operating Activities	<u>(35,697,327)</u>	<u>(36,673,244)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies received - federal	3,792,374	6,375,976
Federal subsidies pass-through to sub recipient	(209,814)	(286,106)
Operating subsidies received - state	17,357,996	17,414,239
Operating subsidies received - local	3,918,144	3,847,619
Deposits received (paid to) from other governments	(250,391)	14,390
Repayment of non-capital advances from other funds	(300,791)	(274,829)
Interest paid on non-capital advances from other funds	(103,517)	(110,387)
Operating transfer from city	10,889,415	10,562,056
Cash Flows from Noncapital Financing Activities	<u>35,093,416</u>	<u>37,542,958</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(1,480,031)	(1,318,377)
Interest paid	(302,568)	(275,472)
Proceeds from issuance of general obligation debt	3,953,533	2,025,110
Acquisition and construction of capital assets	(9,386,493)	(7,137,546)
Capital contributions - city and other	1,480,034	1,318,375
Capital contributions - federal and state	4,852,159	5,122,532
Cash Flows From Capital and Related Financing Activities	<u>(883,366)</u>	<u>(265,378)</u>
Net Change in Cash and Cash Equivalents	(1,487,277)	604,336
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>8,193,536</u>	<u>7,589,200</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,706,259</u>	<u>\$ 8,193,536</u>

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (44,716,087)	\$ (46,455,900)
Nonoperating income	65,413	183,252
Noncash items included in operating loss		
Depreciation expense	6,786,877	6,478,867
Changes in Assets and Liabilities		
Accounts receivable	1,385,564	349,907
Materials and supplies	31,165	32,876
Prepaid expenses	34,751	22,512
Accrued payroll liabilities	(218,183)	95,497
Retiree health insurance escrow payable from restricted assets	30,266	(48,331)
Other post-employment benefits	712,538	565,862
Accounts payable	(272,478)	186,522
Pension related deferrals and liabilities	463,115	1,870,596
Unearned revenue	15,736	68,472
Unearned revenue - land and tower lease	(16,004)	(23,376)
	<u> </u>	<u> </u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (35,697,327)	\$ (36,673,244)
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS		
Cash	\$ 5,162,479	\$ 6,680,022
Restricted Cash - Retiree Health Insurance Escrow	<u>1,543,780</u>	<u>1,513,514</u>
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS	\$ 6,706,259	\$ 8,193,536

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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 Transportation Planning and Policy Board and Transportation Commission which consists of City Council members and citizen representatives. Service is provided in two major areas: fixed route service utilizing 220 coaches and paratransit services for the elderly and handicapped using both directly operated and purchased transportation services (as of August 2018 Metro no longer provides directly operated paratransit service).

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

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

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

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for financial statements for years beginning after June 15, 2017. This statement requires governments to report a liability on the face of the financial statements for the Postemployment Benefits Other than Pensions (OPEB) provided by the entities and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Metro adopted this statement effective January 1, 2018. The cumulative impact of the implementation is shown in Note 12.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Cash and Cash Equivalents

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

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

Deposits and Investments

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

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

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on the methods and inputs outlined in the financial statements of the city in compliance with Statement No. 72 of the Governmental Accounting Standards Board. 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, 2018 and 2017

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

ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION (cont.)

Accounts Receivable

Metro considers receivables from government units to be fully collectible; accordingly, no allowance for doubtful accounts from governmental units is presented. An allowance of \$23,183 is included in 2018 and 2017 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 2018 and 2017.

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 \$10,000 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 12/31/18	Balance 12/31/17	Years
Land	\$ 2,604,992	\$ 2,604,992	N/A
Building	14,035,923	12,267,916	5 – 40
Curb and land improvements	6,714,009	6,714,009	5
Revenue equipment	80,623,116	79,742,145	8 – 20
Service vehicles	830,275	797,810	4 – 5
Shop and garage equipment	1,803,588	1,803,588	3 – 10
Furniture and office equipment	723,097	754,949	3 – 10
Miscellaneous and farebox	10,161,054	9,230,422	3 – 15
Total Capital Assets	\$ 117,496,054	\$ 113,915,831	

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION (cont.)

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

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, 2018 and 2017 is \$4,058,552 and \$3,832,304 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.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION (cont.)

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 deposits were \$439,819 and \$431,195 in 2018 and 2017, respectively. To qualify a retiree must have retired on or after reaching age 55, must have completed ten continuous years of full-time service with Metro in a position represented by Teamsters Union Local 695, just prior to retiring and be eligible to retire under the Wisconsin Retirement System (WRS). Retirees receive this benefit for a maximum of five consecutive years or until becoming eligible for Medicare. Retirees will be eligible for premium contributions to the extent that funds are available in the escrow account and Metro will not be required to make any additional payments to the account should the cost of providing premium contributions exceed the amount deposited. Interest income remains with the escrow account less a 1% administrative fee transferred to the City. As of December 31, 2018, 116 current employees have met the eligibility requirements.

Unearned Revenue

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

Long-Term Obligations

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

Deposits from Other Governments

Metro collects deposits from various entities that provide Metro with local operating assistance subsidies. These deposits are held by Metro in reserve to help fund unanticipated cost increases in future years. The reserve balance is reviewed annually and amounts received in excess of the annual cost and the required reserve balance are reported as payables and refunded in the subsequent year. In 2018 and 2017, \$409,522 and \$193,347, respectively, were returned to these entities.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION (cont.)

Net Position

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

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

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

The following calculation supports the net investment in capital assets:

	2018	2017
Plant in service	\$ 117,496,054	\$ 113,915,831
Accumulated depreciation	(72,971,622)	(72,101,886)
Construction work in progress	74,500	185,371
Sub-Totals	44,598,932	41,999,316
Less: Capital related debt		
Current portion of general obligation bonds	1,732,731	1,480,034
Long-term portion of capital related general obligation bonds	10,456,720	8,235,915
Sub-Totals	12,189,451	9,715,949
Add unspent proceeds of capital-related debt included above	308,954	846,619
Net Investment in Capital Assets	\$ 32,718,435	\$ 33,129,986

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

REVENUES AND EXPENSES

Revenue Recognition

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

Taxes

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

Capital Contributions

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

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 2 – CHANGES IN CAPITAL ASSETS

A summary of changes in Metro capital assets for 2018 and 2017 follows:

	Balance 1/1/18	Additions	Retirements	Adjustments	Balance 12/31/18
Capital assets not being depreciated					
Land	\$ 2,604,992	\$ -	\$ -	\$ -	\$ 2,604,992
Capital assets being depreciated/ amortized					
Building and improvements	12,267,916	1,768,007	-	-	14,035,923
Curb and land improvements	6,714,009	-	-	-	6,714,009
Revenue vehicles	79,742,145	6,766,260	(5,885,289)	-	80,623,116
Service vehicles	797,810	32,465	-	-	830,275
Shop and garage equipment	1,803,588	-	-	-	1,803,588
Office equipment	754,949	-	(31,852)	-	723,097
Miscellaneous and farebox	9,230,422	930,632	-	-	10,161,054
Total Capital Assets Being Depreciated	111,310,839	9,497,364	(5,917,141)	-	114,891,062
Total Capital Assets	113,915,831	9,497,364	(5,917,141)	-	117,496,054
Less: Accumulated depreciation/ amortization					
Building and improvements	(10,650,173)	(580,186)	-	-	(11,230,359)
Curb and land improvements	(6,468,687)	(99,628)	-	-	(6,568,315)
Revenue vehicles	(45,202,523)	(5,439,419)	5,885,289	-	(44,756,653)
Service vehicles	(717,233)	(30,722)	-	-	(747,955)
Shop and garage equipment	(1,561,192)	(80,694)	-	-	(1,641,886)
Office equipment	(746,257)	(6,862)	31,852	-	(721,267)
Miscellaneous and farebox	(6,755,821)	(549,366)	-	-	(7,305,187)
Total Accumulated Depreciation/amortization	(72,101,886)	(6,786,877)	5,917,141	-	(72,971,622)
Construction in progress	185,371	74,500	185,371	-	74,500
Net Transit System Plant	\$ 41,999,316				\$ 44,598,932

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 – CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/17	Additions	Retirements	Adjustments	Balance 12/31/17
Capital assets not being depreciated					
Land	\$ 2,604,992	\$ -	\$ -	\$ -	\$ 2,604,992
Capital assets being depreciated /amortized					
Building and improvements	11,702,659	565,257	-	-	12,267,916
Curb and land improvements	6,671,484	-	-	42,525	6,714,009
Revenue vehicles	76,956,454	6,594,885	(3,809,194)	-	79,742,145
Service vehicles	813,215	30,407	(45,812)	-	797,810
Shop and garage equipment	1,807,945	15,664	(20,021)	-	1,803,588
Office equipment	794,520	-	(39,571)	-	754,949
Miscellaneous and farebox	9,324,570	170,383	(222,006)	(42,525)	9,230,422
Total Capital Assets Being Depreciated	<u>108,070,847</u>	<u>7,376,596</u>	<u>(4,136,604)</u>	<u>-</u>	<u>111,310,839</u>
Total Capital Assets	<u>110,675,839</u>	<u>7,376,596</u>	<u>(4,136,604)</u>	<u>-</u>	<u>113,915,831</u>
Less: Accumulated depreciation /amortization					
Building and improvements	(10,244,026)	(406,147)	-	-	(10,650,173)
Curb and land improvements	(6,372,378)	(98,799)	-	2,490	(6,468,687)
Revenue vehicles	(43,606,168)	(5,405,549)	3,809,194	-	(45,202,523)
Service vehicles	(717,819)	(45,226)	45,812	-	(717,233)
Shop and garage equipment	(1,492,962)	(88,250)	20,020	-	(1,561,192)
Office equipment	(771,303)	(14,525)	39,571	-	(746,257)
Miscellaneous and farebox	(6,554,966)	(420,371)	222,006	(2,490)	(6,755,821)
Total Accumulated Depreciation/amortization	<u>(69,759,622)</u>	<u>(6,478,867)</u>	<u>4,136,603</u>	<u>-</u>	<u>(72,101,886)</u>
Construction in progress	<u>300,633</u>	<u>-</u>	<u>115,262</u>	<u>-</u>	<u>185,371</u>
Net Transit System Plant	<u>\$ 41,216,850</u>				<u>\$ 41,999,316</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 3 – INTER-FUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of transfer balances as of December 31, 2018 and 2017:

To	From	2018		2017	
		Amount	Principal Purpose	Amount	Principal Purpose
Metro	City of Madison	\$10,889,415	City operating subsidy	\$10,562,056	City operating subsidy

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 12/31/18
Promissory Note	10-1-09	10-1-19	0.90 – 4.35%	\$ 805,000	\$ 80,463
Promissory Note	10-19-10	10-19-20	2.00 – 3.75%	97,890	32,630
Promissory Note	10-1-11	10-1-21	0.45 – 5.00%	1,709,900	512,932
Promissory Note	10-1-12	10-1-22	2.00 – 4.00%	1,108,275	443,254
Promissory Note	10-1-14	10-1-24	2.00 – 5.00%	2,246,495	1,347,767
Promissory Note	10-1-15	10-1-25	2.00 – 3.00%	2,631,128	1,789,427
Promissory Note	10-1-16	10-1-26	.50 – 4.00%	3,047,826	2,206,846
Promissory Note	10-1-17	10-1-27	2.00 – 4.00%	2,025,110	1,822,599
Promissory Note	10-1-18	10-1-28	2.00 – 5.00%	3,953,533	3,953,533
Total					<u>\$ 12,189,451</u>

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Year	10-1-09		10-19-10		10-1-11		10-1-12		10-1-14		10-01-15	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 80,463	\$ 2,249	\$ 16,335	\$ 769	\$ 170,978	\$ 22,227	\$ 110,814	\$ 15,514	\$ 224,628	\$ 51,664	\$ 255,633	\$ 53,683
2020	-	-	16,295	397	170,977	13,678	110,814	11,081	224,628	44,926	255,633	46,014
2021	-	-	-	-	170,977	6,839	110,813	6,649	224,628	35,940	255,633	38,345
2022	-	-	-	-	-	-	110,813	3,324	224,628	24,709	255,632	30,676
2023	-	-	-	-	-	-	-	-	224,628	15,724	255,632	23,007
2024	-	-	-	-	-	-	-	-	224,627	6,739	255,632	15,338
2025	-	-	-	-	-	-	-	-	-	-	255,632	7,669
2026	-	-	-	-	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-	-	-	-	-
Totals	\$ 80,463	\$ 2,249	\$ 32,630	\$ 1,166	\$ 512,932	\$ 42,744	\$ 443,254	\$ 36,568	\$ 1,347,767	\$ 179,702	\$ 1,789,427	\$ 214,732

Year	10-1-16		10-1-17		10-1-18		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 275,879	\$ 61,379	\$ 202,511	\$ 59,234	\$ 395,492	\$ 134,093	\$ 1,732,731	\$ 400,812
2020	275,879	57,931	202,511	53,159	395,492	130,464	1,652,228	357,650
2021	275,879	49,655	202,511	45,059	395,492	114,644	1,635,934	297,131
2022	275,879	44,137	202,511	36,958	395,491	98,825	1,464,954	238,629
2023	275,879	33,102	202,511	28,858	395,261	83,005	1,353,911	183,696
2024	275,879	22,066	202,511	20,757	395,261	67,194	1,353,910	132,094
2025	275,879	11,031	202,511	12,657	395,261	51,384	1,129,283	82,741
2026	275,693	5,514	202,511	8,607	395,261	35,574	873,465	49,695
2027	-	-	202,511	4,355	395,261	23,716	597,772	28,070
2028	-	-	-	-	395,261	11,858	395,263	11,858
Totals	\$ 2,206,846	\$ 284,815	\$ 1,822,599	\$ 269,644	\$ 3,953,533	\$ 750,772	\$ 12,189,451	\$ 1,782,376

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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 12/31/18
October 19, 2010	Pay off WRS Prior Service Liability	October 19, 2024	0.55 - 4.00%	\$ 4,333,711	\$ 2,526,282

Advance from other funds debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 330,332	\$ 94,493	\$ 424,825
2020	362,560	83,757	446,317
2021	398,368	71,068	469,436
2022	436,863	56,527	493,390
2023	477,147	39,926	517,073
2024	521,012	20,841	541,853
Totals	<u>\$ 2,526,282</u>	<u>\$ 366,612</u>	<u>\$ 2,892,894</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Metro's long-term obligations activity for the years ended December 31, 2018 and 2017 is as follows:

	<u>Balance</u> 1/1/18	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 12/31/18	<u>Due Within</u> <u>One Year</u>
General obligation notes	\$ 9,715,949	\$ 3,953,536	\$ 1,480,034	\$ 12,189,451	\$ 1,732,731
Advance from other funds	2,827,073	-	300,791	2,526,282	330,332
Retiree health insurance escrow	1,513,514	439,819	409,553	1,543,780	328,513
Accrued sick leave	3,832,304	1,211,862	985,614	4,058,552	96,138
Deposits from other governments	526,543	-	250,391	276,152	-
Unearned revenue-land and tower lease	<u>39,921</u>	<u>-</u>	<u>16,004</u>	<u>23,917</u>	<u>3,595</u>
Totals	<u>\$ 18,455,304</u>	<u>\$ 5,605,217</u>	<u>\$ 3,442,387</u>	<u>\$ 20,618,134</u>	<u>\$ 2,491,309</u>

	<u>Balance</u> 1/1/17	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 12/31/17	<u>Due Within</u> <u>One Year</u>
General obligation notes	\$ 9,009,216	\$ 2,025,110	\$ 1,318,377	\$ 9,715,949	\$ 1,480,034
Advance from other funds	3,101,902	-	274,829	2,827,073	300,791
Retiree health insurance escrow	1,561,845	431,195	479,526	1,513,514	418,513
Accrued sick leave	3,648,344	1,259,901	1,075,941	3,832,304	303,566
Deposits from other governments	512,153	207,737	193,347	526,543	-
Unearned revenue-land and tower lease	<u>63,297</u>	<u>-</u>	<u>23,376</u>	<u>39,921</u>	<u>16,004</u>
Totals	<u>\$ 17,896,757</u>	<u>\$ 3,923,943</u>	<u>\$ 3,365,396</u>	<u>\$ 18,455,304</u>	<u>\$ 2,518,908</u>

In addition to the liabilities above, information on the net pension and other post-employment benefits liability (asset) are provided in Note 7 and Note 8, respectively.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Federal	\$ 6,509,275	\$ 6,582,042
Federal operating grant pass-through to sub recipient	(209,814)	(286,106)
State	17,357,996	17,414,239
Local public subsidies	3,701,969	4,046,352
City of Madison	10,889,415	10,562,056

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 a thirty year, fully prepaid operating lease with University Research Park, Inc. for a parcel of land used in conjunction with bus transfer facilities for \$214,000. The revenue received to pay for the lease was deferred and is being recognized over the life of the lease.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

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

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

	<u>University Research Park</u>	<u>Total</u>
2019	\$ 3,595	\$ 3,595
2020	3,336	3,336
2021	3,096	3,096
2022	2,872	2,872
2023	2,665	2,665
2024-2027	<u>8,353</u>	<u>8,353</u>
	<u>\$ 23,917</u>	<u>\$ 23,917</u>

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 7 – EMPLOYEES' RETIREMENT SYSTEM

General Information About the Pension Plan

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

Vesting. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

Post-retirement adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system’s consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the “floor”) set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2007	3.0%	10%
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)
2017	2.0	4.0

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting January 1, 2016, the Executives and Elected Officials category merged into the General Employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

The WRS recognized \$1,918,887 and \$1,823,003 in contributions from Metro during the current and prior reporting periods, respectively.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

Contribution rates as of December 31, 2018 and December 31, 2017 are:

	2018		2017	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.7%	6.7%	6.8%	6.8%
Protective with Social Security	6.7%	10.7%	6.8%	10.6%
Protective without Social Security	6.7%	14.9%	6.8%	14.9%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, Metro reported a liability (asset) of \$(5,440,545) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. Metro’s proportion of the net pension liability (asset) was based on Metro’s share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the City’s proportion was 1.70513153%, which was an increase of .06895898% from its proportion measured as of December 31, 2016.

At December 31, 2017, Metro reported a liability (asset) of \$1,535,389 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. Metro’s proportion of the net pension liability (asset) was based on Metro’s share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the City’s proportion was 1.636172550%, which was an increase of .03798899% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2018, and 2017 Metro recognized pension expense of \$463,115 and \$3,789,483.

At December 31, Metro reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,962,888	\$ 3,732,757	\$ 603,134	\$ 5,057,113
Changes in assumption	1,240,970	-	1,681,258	-
Net differences between project and actual earnings on pension plan	-	6,606,482	8,084,878	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	90,691	-	87,545
Employer contributions subsequent to the measurement date	<u>1,930,522</u>	<u>-</u>	<u>1,918,887</u>	<u>-</u>
Total	<u>\$10,134,380</u>	<u>\$ 10,429,930</u>	<u>\$12,288,157</u>	<u>\$ 5,144,658</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

Deferred outflows related to pension resulting from the WRS Employer’s contributions subsequent to the measurement date reported in the tables above will be recognized as a reduction of the net pension liability (asset) in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>2018</u>	<u>Year Ended December 31</u>	<u>2017</u>
2019	\$ 444,106	2018	\$ 2,134,443
2020	(60,319)	2019	2,134,443
2021	(1,495,640)	2020	1,452,327
2022	(1,124,528)	2021	(498,694)
2023	10,309	2022	2,093
Thereafter	-	Thereafter	-
Total	<u>\$ (2,226,072)</u>	Total	<u>\$ 5,224,612</u>

Actuarial assumptions. The total pension liability in the actuarial valuation used in the current and prior year was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2018</u>	<u>2017</u>
Actuarial valuation date	December 31, 2016	December 31, 2015
Measurement date of net pension liability (asset)	December 31, 2017	December 31, 2016
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair market value	Fair market value
Long-term expected rate of return	7.2%	7.2%
Discount rate	7.2%	7.2%
Salary increases		
Inflation	3.2%	3.2%
Seniority/Merit	0.2% - 5.6%	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table
Post-retirement adjustments	2.1%	2.1%

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions used in the December 31, 2016 actuarial valuation are based upon an experience study conducted in 2016 using experience from 2013 – 2015. The total pension liability for December 31, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 actuarial valuation.

Actuarial assumptions used in the December 31, 2015 actuarial valuation are based upon an experience study conducted in 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2018 are summarized in the following table:

<u>Core Fund Asset Class</u>	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50%	45%	8.2%	5.3%
Fixed Income	24.5	37	4.2	1.4
Inflation Sensitive Assets	15.5	20	3.8	1.0
Real Estate	8	7	6.5	3.6
Private Equity/Debt	8	7	9.4	6.5
Multi-Asset	4	4	6.5	3.6
Total Core Fund	110	120	7.3	4.4
<u>Variable Fund Asset Class</u>				
U.S Equities	70	70	7.5	4.6
International Equities	30	30	7.8	4.9
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%.
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2017 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
U.S. Equities	50%	45%	8.3%	5.4%
Fixed Income	24.5	37	4.24	1.4
Inflation Sensitive Assets	15.5	20	4.3	1.5
Real Estate	8	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.6	3.7
Total Core Fund	110	120	7.4	4.5
<u>Variable Fund Asset Class</u>				
<u>U.S Equities</u>	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%.
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability as of December 31, 2018 and December 31, 2017. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.31% in 2018 and 3.78% in 2017. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

Sensitivity of the Metro's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents Metro’s proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what Metro’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate.

The sensitivity analysis as of December 31, 2018 and 2017 follows:

Metro’s proportionate share of the net position liability (asset)	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
December 31, 2018	\$ 14,076,547	\$ (5,440,545)	\$ (20,274,138)
December 31, 2017	20,225,488	1,535,389	(12,853,273)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/Publications/cafr.htm>.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS

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

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

Employees covered by benefit terms. At December 31, 2018, the following employees were covered by the benefit terms for the City of Madison:

	<u>City of Madison</u>
Inactive plan members or beneficiaries currently receiving benefit payments	2,895
Active plan members	<u>807</u>
Total members	<u><u>3,702</u></u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

TOTAL OPEB LIABILITY

Metro's total OPEB liability of \$9,852,442 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.70% per year
Salary increases	0.4% - 4.8%
Investment rate of return	3.56% as of January 1, 2018 and 4.11% as of December 31, 2018
Healthcare cost trend rates	8.0% decreasing to an ultimate rate of 4.50%

The discount rate was based on 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

Mortality Rates are based on RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January – December 2018.

CHANGES IN THE TOTAL OPEB LIABILITY

	<u>Total OPEB Liability</u>
Balances at December 31, 2017	<u>\$ 10,182,459</u>
Changes for the year:	
Service cost	705,351
Interest	380,003
Differences between expected and actual experience	(781,976)
Changes in assumptions	(202,495)
Employer contributions	<u>(430,900)</u>
Net changes	<u>(330,017)</u>
Balances at December 31, 2018	<u>\$ 9,852,442</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

CHANGES IN THE TOTAL OPEB LIABILITY (cont.)

Changes in assumptions and other inputs from December 31, 2017 to December 31, 2018 include the following, respectively; change in the actuarial cost method from the Projected Unit Credit with linear proration to decrement to the Entry Age Normal Level % of Salary, change in the discount rate from 4.50% to 4.11%, update in the mortality table from SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 to SOA RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018 and an update in the health care and subsidy trend rates from an initial rate of 7.50% decreasing by 0.05% annually to an ultimate rate of 4.50% to an initial rate of 8.00% decreasing by 0.05% annually to an ultimate rate of 4.50%.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of Metro, as well as what the Metro's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.11 percent) or 1-percentage-point higher (5.11 percent) than the current discount rate:

	1% Decrease (3.11%)	Discount Rate (4.11%)	1% Increase (5.11%)
Total OPEB liability	\$ 10,644,443	\$ 9,852,442	\$ 9,133,867

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of Metro, as well as what the Metro's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.0 percent decreasing to an ultimate rate of 3.5%) or 1-percentage-point higher (9.0 percent decreasing to 5.5% percent) than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	\$ 8,981,959	\$ 9,852,442	\$ 10,874,694

OPEB EXPENSE AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended December 31, 2018, Metro recognized OPEB expense of \$712,537. At December 31, 2018, Metro reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Changes of assumptions or other inputs	\$ (177,183)
Differences between expected and actual experience	(684,229)
Total	\$ (861,412)

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

OPEB EXPENSE AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (cont.)

Deferred outflows related to OPEB resulting from the employer's contributions subsequent to the measurement date reported in the table above will be recognized as a reduction of the total OPEB liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:

2019	\$ (123,059)
2020	(123,059)
2021	(123,059)
2022	(123,059)
2023	(123,059)
Thereafter	<u>(246,117)</u>
Total	<u>\$ (861,412)</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

PRIOR YEAR OTHER POSTEMPLOYMENT BENEFIT DISCLOSURES REQUIRED UNDER GASB No. 45

The city's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the city's annual OPEB cost for 2017 and 2016:

	<u>Entire City</u>		<u>Metro</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Annual OPEB Cost	\$ 7,293,602	\$ 7,440,559	\$ 1,435,590	\$ 1,261,692
Contributions made	<u>2,625,538</u>	<u>3,920,347</u>	<u>869,728</u>	<u>708,224</u>
Increase in net OPEB obligation	4,668,064	3,520,212	565,862	553,468
Net OPEB Obligation - Beginning of Year	<u>32,933,461</u>	<u>29,413,249</u>	<u>4,839,318</u>	<u>4,285,850</u>
Net OPEB Obligation - End of Year	<u>\$ 37,601,525</u>	<u>\$ 32,933,461</u>	<u>\$ 5,405,180</u>	<u>\$ 4,839,318</u>

The city's and Metro's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB liability for 2017, 2016 and 2015 were as follows:

<i>City</i>			
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Liability</u>
December 31, 2017	\$ 7,293,602	36%	\$37,601,525
December 31, 2016	\$ 7,440,559	53%	\$32,933,461
December 31, 2015	\$ 6,808,834	43%	\$29,413,249
<i>Metro</i>			
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Liability</u>
December 31, 2017	\$ 1,435,590	61%	\$ 5,405,180
December 31, 2016	\$ 1,261,692	56%	\$ 4,839,318
December 31, 2015	\$ 1,294,541	55%	\$ 4,285,850

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

The funded status of the plan (for the entire city) as of December 31, 2017, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 62,674,237
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 62,674,237</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.0%</u>
Covered payroll (active plan members)	<u>\$ 190,626,255</u>
UAAL as a percentage of covered payroll	<u>32.9%</u>

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 8.0% for 2018, reduced by decrements to an ultimate rate of 4.5% for 2025 and beyond. Both rates include a 3.0% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level dollar over 30 years based on an open group.

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 9 – RISK MANAGEMENT

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

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

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

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN (TMI)

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

In 2018, TMI issued Metro an auto liability policy with a \$250,000 per person policy limit and a \$7,000,000 per accident policy limit. Of the per accident policy limit, TMI insures \$2,000,000 and reinsures \$5,000,000 with Great American Reinsurance Group. In addition, Metro's policy provides for \$25,000 per person and \$50,000 per accident in uninsured motorist insurance.

In 2018, TMI also provided Metro with auto physical damage coverage for its buses with a total limit of \$78,200,000 and a \$5,000 deductible for collision and comprehensive coverage. TMI insures \$750,000 and reinsures the remainder of \$77,450,000 with Great American Insurance Group.

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

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 9 – RISK MANAGEMENT (cont.)

Metro's share of TMi is 40.70% for auto liability. A list of the other members and their share of participation is available in the TMi report which is available from: TMi, PO Box 1135, Appleton, WI 54915-1483 or by email from tmi@transitmutual.com.

NOTE 10 – BASIS FOR EXISTING FARES

Current fares were made effective August 28, 2016 as approved by the Transit and Parking Commission.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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

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

In January of 2013 the Transit and Parking Commission approved a contract with Gillig Corp. for the purchase of up to 80 buses over a six-year period. As of December 31, 2018, all 80 buses had been purchased under this contract. In September of 2018 the Common Council approved a contract with New Flyer Corp. for the purchase of up to 72 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.

NOTE 12 – RESTATEMENT FOR CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

Metro adopted GASB Statement No. 75 effective January 1, 2018. The cumulative effect of implementation is reflected as a restatement of net position at December 31, 2017 as follows:

Net position – previously reported	\$	33,885,728
Net OPEB liability, December 31, 2017		(4,777,279)
Deferred inflows, December 31, 2017		181,141
		<hr/>
Cumulative Effect of a Change in Accounting Principle		(4,596,138)
		<hr/>
Net position – as restated	\$	29,289,590

Additional information required for retroactive implementation was not provided by the OPEB plan.

REQUIRED SUPPLEMENTAL INFORMATION

METRO TRANSIT SYSTEM

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2018

Fiscal Year Ending	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
12/31/18	1.70513153%	\$ (5,440,545)	\$ 28,218,926	-19.28%	102.93%
12/31/17	1.63617225%	1,535,389	26,808,868	5.73%	99.12%
12/31/16	1.59818356%	3,065,279	21,892,596	14.00%	98.20%
12/31/15	1.58638589%	(4,594,579)	21,289,768	-21.58%	102.74%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2018

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/18	\$ 1,930,522	\$ (1,930,522)	\$ -	28,390,029	6.80%
12/31/17	1,918,887	(1,918,887)	-	28,218,926	6.80%
12/31/16	1,823,003	(1,823,003)	-	26,808,868	6.80%
12/31/15	1,838,382	(1,838,382)	-	21,892,596	8.40%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2018

Changes of benefit terms. There were no changes of benefit terms for any participating employer in WRS.

Changes of assumptions. There were no changes in the assumptions.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

METRO TRANSIT SYSTEM

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS (LAST TEN FISCAL YEARS) *

		2018
Total OPEB Liability		
Service Cost	\$	705,351
Interest on Total OPEB Liability		380,003
Changes in benefits terms		-
Difference between expected and actual experience		(781,976)
Changes in assumptions		(202,495)
Employee Contributions		-
Benefit payments, including employee refunds		(430,900)
Administrative expense		-
Net Change in total OPEB Liability		(330,017)
Total OPEB Liability - beginning		10,182,459
Total OPEB Liability - ending	\$	9,852,442
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%
Covered-employee payroll	\$	29,558,616
Total OPEB liability as a percentage of covered-employee payroll		33.3%

Notes to OPEB Schedule:

Changes in Assumptions

Actuarial Methodology - The actuarial cost method has been updated from Projected Unit Credit with linear proration to decrement to Entry Age Normal Level % of Salary in the December 31, 2018 valuation.

Discount Rate - The discount rate has been updated from 4.50% to 4.11% in the December 31, 2018 valuation.

Mortality Table - The mortality table from SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 has been updated to to SOA RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018.

Health Care and Subsidy Trend Rates - An update in the health care and subsidy trend rates from an initial rate of 7.50% decreasing by 0.05% annually to an ultimate rate of 4.50% to an initial rate of 8.00% decreasing by 0.05% annually to an ultimate rate of 4.50% for the December 31, 2018 valuation.

* Measurement fiscal year 2018 was the first year of GASB 75 implementation, therefore only one year is presented.

Notes to OPEB Schedule:

Methods and Assumptions used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal Level % of Salary Method
Amortization method	Level percentage of payroll, closed
Amortization period	15 years
Asset valuation method	5 - year smoothed market
Inflation	2.7 percent
Healthcare cost trend rates	8.0% decreasing to an ultimate rate of 4.50%
Salary increases	0.4% - 4.8%
Investment rate of return	3.56% as of January 1, 2018 and 4.11% as of December 31, 2018
Retirement age	In the 2018 actuarial valuation, expected retirement ages of general employees are based on a March 2018 experience study
Mortality	Mortality Rates are based on RPH-2018 Total Dataset Mortality Table fully
Other information:	
None	

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

METRO TRANSIT SYSTEM

OPERATING REVENUES AND EXPENSES December 31, 2018 and 2017

OPERATING REVENUES	<u>2018</u>	<u>2017</u>
Passenger Fares for Transit Services		
Farebox	\$ 1,617,271	\$ 1,607,055
Adult 10 ride and 2 ride passes	774,405	783,824
Youth 10 ride and 2 ride passes	242,028	262,305
Senior & disabled passes	2,037,987	650,021
Adult 31 day passes	1,253,387	1,328,197
Easy rider passes	445,857	386,515
MMSD passes	1,423,052	1,430,127
Summer youth passes	51,870	54,615
UW ASM unlimited ride pass	3,495,174	3,627,750
UW Staff unlimited ride pass	2,001,156	2,002,062
Edgewood College unlimited ride pass	53,632	64,744
Madison College unlimited ride pass	424,303	428,791
City of Madison Employee unlimited ride pass	183,187	181,328
St Marys Hospital unlimited ride pass	41,093	39,060
Meriter Hospital unlimited ride pass	24,172	25,709
Dane County unlimited ride pass	49,500	47,436
Commuter Pass unlimited ride pass	250,410	243,430
Total Passenger Fares for Transit Service	<u>14,368,484</u>	<u>13,162,969</u>
Other Operating Revenues		
Advertising revenue	832,560	632,037
Sale of buses, scrap and parts	61,973	38,610
Miscellaneous	69,205	28,355
Dane County - MA Waiver	742,828	4,066,535
Dane County - Elderly & Handicapped	267,907	165,012
Dane County - Group Access Service	155,862	182,970
Dane County - Group RSVP Service	120,338	116,765
Dane County - Exceptional Rides	16,336	90,641
Dane County - Highway (Marketing)	19,300	19,280
Total Other Operating Revenues	<u>2,286,309</u>	<u>5,340,205</u>
Total Operating Revenues	<u>16,654,793</u>	<u>18,503,174</u>
OPERATING EXPENSES		
Operation and Maintenance Expenses		
Employee compensation and benefits		
Salaries and wages	29,517,962	29,071,002
Pensions and benefits	13,362,909	14,513,467
Total Employee Compensation and Benefits	<u>42,880,871</u>	<u>43,584,469</u>
Materials and supplies	4,471,350	5,430,356
Purchased services	6,892,803	9,131,812
Interagency charges	338,979	333,570
Total Operation and Maintenance Expenses	<u>54,584,003</u>	<u>58,480,207</u>
Depreciation expense	6,786,877	6,478,867
Total Operating Expenses	<u>61,370,880</u>	<u>64,959,074</u>
 NET OPERATING LOSS	 <u>\$ (44,716,087)</u>	 <u>\$ (46,455,900)</u>

METRO TRANSIT SYSTEM

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS December 31, 2018 and 2017

		<u>2018</u>		<u>2017</u>
REVENUES				
401.00	Passenger fares for transit service	\$ 14,368,484	\$	13,162,969
402.10	Service charges, NSF charges, etc.	69,205		28,355
406.00	Auxiliary transportation revenue - advertising	832,560		632,037
407.10	Contra-expense for sale of buses, scrap and parts	61,973		38,610
409.10	Local public subsidies	3,701,969		4,046,352
409.30	City of Madison operating subsidy	10,889,415		10,562,056
409.40	Dane County specialized transportation programs	1,322,571		4,641,203
411.00	State cash grants and reimbursements	17,357,996		17,414,239
413.00	Federal cash grants and reimbursements	6,509,275		6,582,042
	Federal subsidies pass-through to sub recipient	<u>(209,814)</u>		<u>(286,106)</u>
	Total Eligible Revenues	<u>54,903,634</u>		<u>56,821,757</u>
EXPENSES - BY OBJECT CLASS TOTAL				
501.01	Operators' salaries and wages	18,401,937		18,425,175
501.02	Other salaries and wages	10,325,368		9,943,236
502.00	Fringe benefits	14,251,832		15,308,920
503.00	Services	1,072,930		1,181,801
504.01	Fuel and lubricants	2,343,817		3,211,043
504.02	Tires and tubes	240,014		235,980
504.99	Other materials and supplies	1,810,719		1,911,648
505.00	Utilities	485,926		510,324
506.00	Casualty and liability costs	878,442		1,311,872
508.00	Purchased transportation	3,788,231		5,585,594
509.00	Miscellaneous expense	132,043		143,540
511.00	Interest expense	433,853		385,859
512.00	Leases and rentals	513,767		377,505
513.00	Depreciation	6,786,877		6,478,867
	Less: Ineligible depreciation on fixed assets	<u>(6,786,877)</u>		<u>(6,478,867)</u>
516.00	Other Reconciling Items	<u>338,979</u>		<u>333,570</u>
	Total Eligible Expenses	<u>55,017,858</u>		<u>58,866,067</u>
	NET INCOME (excluding capital contributions and depreciation on fixed assets)	<u>\$ (114,224)</u>	\$	<u>(2,044,310)</u>

METRO TRANSIT SYSTEM

RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL RECOGNIZED REVENUES AND EXPENSES

For the Year Ended December 31, 2018

		Per WisDOT Guidelines
Revenues including subsidies and operating transfer	\$	54,903,634
Less: Non-recognized revenues		
City operating transfer	\$	10,889,415
Local public subsidies		3,701,969
Dane County specialized transportation programs		1,322,571
Other federal subsidy		6,509,275
State operating subsidy		17,357,996
Nontransportation revenues		
Sale of buses, scrap and parts		61,973
Service charges, NSF charges, etc.		69,205
Total Non-Recognized Revenues		<u>39,912,404</u>
WisDOT Eligible Operating Revenues	\$	<u>14,991,230</u>
Total Expenses per statement including interest expense	\$	61,804,733
Add: Fixed assets eligible for operating assistance		-
Total Expenses		<u>\$ 61,804,733</u>
Less: Non-recognized expenses		
Depreciation		6,786,877
Interest expense		433,853
Offset of scrap sales and miscellaneous reimbursements		131,178
Capital Maintenance Grant @ 100%		7,750,000
Leases and rentals		230,931
Interagency indirect charges without approved allocation plan		338,979
Total WisDOT Non-Recognized Expenses		<u>15,671,818</u>
WisDOT Eligible Operating Expenses	\$	<u>46,132,915</u>
WisDOT Recognized Deficit	\$	(31,141,685)
Less Operating revenues ineligible for federal assistance:		
Advertising revenue		832,560
Federal Recognized Deficit	\$	<u>(30,309,125)</u>

METRO TRANSIT SYSTEM

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS For the Year Ended December 31, 2018

STATE FUNDS

WisDOT Recognized Deficit		<u>\$ 31,141,685</u>
WisDOT Contract Amount*		<u>\$ 17,357,996</u>
City of Madison and Other Local Subsidies	<u>\$ 14,591,384</u>	
5 Times Operating Subsidy		<u>\$ 72,956,920</u>
State Share - Least of the Three		<u>\$ 17,357,996</u>

FEDERAL FUNDS

	<u>Eligible Costs</u>	<u>Federal Share</u>
Capital maintenance		
Grant WI 900595	\$ 5,065	\$ 4,052
Grant WI 2018-024	\$ 7,744,935	\$ 6,195,948
Enhanced Mobility		
Grant WI 2017-010	\$ 8,668	6,934
Grant WI 2017-010	\$ 9,221	9,221
Grant WI 2018-009	\$ 87,851	70,281
Grant WI 2018-009	\$ 220,081	220,081
Costs accrued - grant to be identified		2,758
Total federal operating revenue		<u>\$ 6,509,275</u>

*This portion was 100% federally funded

SUMMARY OF FUNDING (2018 only)

	<u>Received in 2018</u>	<u>Receivable 12/31/18</u>	<u>Totals</u>
Federal Capital Maintenance	\$ 1,446,538	\$ 5,062,737	\$ 6,509,275
State Funds	17,357,996	-	17,357,996
Local Public Subsidies	3,701,969	-	3,701,969
City of Madison	<u>10,889,415</u>	<u>-</u>	<u>10,889,415</u>
Total Funding	<u>\$ 33,395,918</u>	<u>\$ 5,062,737</u>	<u>\$ 38,458,655</u>

*WisDOT Contract Amount includes \$16,868,000 from the 2018 Urban Mass Transit Operating Assistance Contract and \$489,996 from the 2018 Paratransit Aids Contract.