

2014 Audit Presentation To
WAUKESHA METRO TRANSIT
Jodi Dobson, CPA, Partner of Baker Tilly Virchow Krause LLP

FINANCIAL STATEMENT HIGHLIGHTS

- > Continue to issue a full audit report for the transit. The supplemental information on the Waukesha County Operating Assistance contract is issued in a separate report
- > County information flows through the transit's financial statements
- > Clean audit opinion (pages 1-3)
 - Financial statements are the responsibility of management
 - In our opinion fairly stated
- > Management Discussion & Analysis (pages 4-11) provides highlights
- > Supplemental information on grants (pages 25-28)

MANAGEMENT LETTER

- > Transit Commission should stay involved, review information provided and ask questions.
- > Preparation of 1099's for vendors.
- > Status of prior year recommendations
 - As the transit begins to pass federal funds to Waukesha County, it is important that they understand the sub recipient monitoring requirements under OMB Circular A-133.
 - Access to computer financial applications should be reviewed annually to ensure users have the appropriate access.
 - Transit is now following a capitalization policy consistent with the city's policy and federal rules. This recommendation has been cleared.
 - Management has revised its recognition of state aid based on actual data provided by WISDOT. This recommendation has been cleared.
- > Required communications
 - Summary of audit adjustments are included in the letter.
 - Communicated in the report on internal controls for the City of Waukesha as presented to the City Council.

CITYWIDE SINGLE AUDIT

- > Required since city receives more than \$500,000 federal and/or state funding
- > Tests city compliance with laws and regulations related to program requirements, for example Buy America, Civil Rights, and Minimum wage standards. More issues added for ARRA grants.
- > Citywide report goes to City Council – No transit findings

WAUKESHA METRO TRANSIT

2014 FINANCIAL STATEMENT HIGHLIGHTS

| | <u>2013</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Ridership | | |
| Fixed Route | 746,793 | 706,447 |
| Metrolift | 12,776 | 11,916 |
| MCTS | 270,725 | 257,508 |
| WCL | 170,582 | 165,915 |
| Paratransit | 5,856 | 3,677 |
| Operating Revenues | | |
| Passenger fares & other operating | \$ 1,835,679 | \$ 1,719,681 |
| Tire lease | 32,400 | 31,697 |
| City of Waukesha and other local subsidies | 1,668,307 | 1,739,310 |
| State subsidy* | 4,361,428 | 4,207,784 |
| Federal subsidy | 1,037,765 | 1,035,470 |
| TOTAL | \$ 8,935,579 | \$ 8,733,942 |
| | 100% | 100% |

*The state subsidy above does not include the close-out of the 2009-2012 grants.

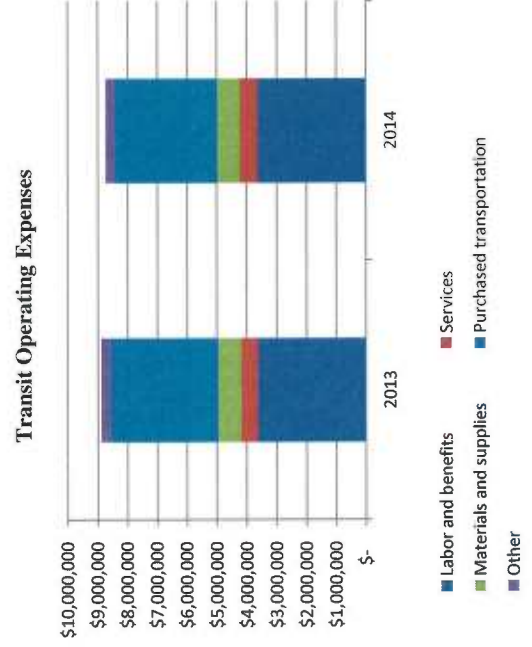
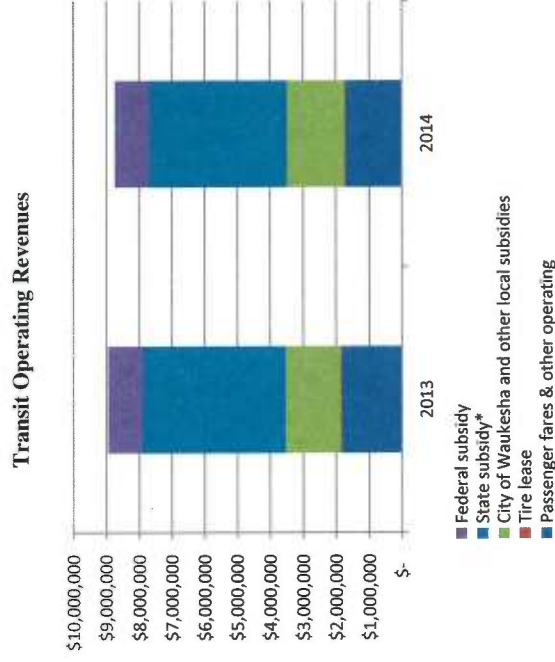
What it means...

State and federal operating subsidies allow for a maximum of 60% of operating expenses to be recovered. The decrease in passenger fares and other operating revenue is a result of lower ridership and less advertising revenue. The overall decrease in revenues follows the decrease in operating costs below.

| | \$ | % | \$ | % |
|---------------------------------------|---------------------|-------------|---------------------|-------------|
| Operating Expenses | | | | |
| Labor and benefits | 3,638,519 | 41% | 3,651,483 | 42% |
| Services | 543,790 | 6% | 584,152 | 7% |
| Materials and supplies | 784,086 | 9% | 753,774 | 9% |
| Purchased transportation | 3,593,144 | 40% | 3,443,188 | 39% |
| Other | 322,173 | 4% | 298,714 | 3% |
| TOTAL (excluding depreciation) | \$ 8,881,712 | 100% | \$ 8,731,311 | 100% |

What it means...

Labor and benefits remained relatively stable for 2014 compared to 2013. Purchased transportation decreased 4% in 2014 due to a decrease in the number of trips provided. The overall expense profile of the transit remained consistent with these two categories accounting for over 80% of the total costs.



WAUKESHA METRO TRANSIT

An Enterprise Fund of the
City of Waukesha, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

WAUKESHA METRO TRANSIT

An Enterprise Fund of the City of Waukesha, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Transit Commission Board
Waukesha Metro Transit
Waukesha, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Waukesha Metro Transit (Transit), an enterprise fund of the City of Waukesha, Wisconsin, as of and for the years ended December 31, 2014 and 2013, 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 Transit'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 Transit'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.

To the Transit Commission Board
Waukesha Metro Transit

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waukesha Metro Transit as of December 31, 2014 and 2013, and the respective changes in the financial position and the cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Transit enterprise fund and do not purport to, and do not present fairly the financial position of the City of Waukesha, Wisconsin, as of December 31, 2014 and 2013 and the respective changes in the 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 opinions on the financial statements as a whole. The Regulatory Basis Schedules and Computation of the Deficit Distribution Among the Subsidy Grantors are presented for purposes of additional analysis and are 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 Regulatory Basis Schedules and Computation of the Deficit Distribution Among the Subsidy Grantors are fairly stated in all material respects in relation to the financial statements as a whole.

To the Transit Commission Board
Waukesha Metro Transit

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 Waukesha'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 the Transit. 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 Waukesha's internal control over financial reporting and compliance.

Baker Tilly Viechow Krause, LLP

Madison, Wisconsin
August 11, 2015

Waukesha Metro Transit

Management's Discussion and Analysis

Basic History of Waukesha Metro Transit

Waukesha Metro Transit began operations on August 30, 1981, after a referendum concerning a publicly owned, privately managed fixed-route bus system was successful in April 1980. The Waukesha Metro Transit System is owned by the City of Waukesha and operated by a private contract management firm, currently Transdev. The management contract is competitively procured every five years and has always been in place since the beginning of operations in 1981.

Public transit was actually initiated in the Waukesha area in 1895 with the construction of an electric railway between Waukesha and Waukesha Beach, a recreational area located on Pewaukee Lake. In 1898, this route was connected to a new electric interurban railway route between Waukesha and Milwaukee. In 1907 the line was extended west to Oconomowoc, and in 1908 it was extended again to Watertown. In August 1941, local bus service was inaugurated in the City of Waukesha. Declining ridership had forced cutbacks in the electric interurban railway service to the western city limits of Waukesha. In 1945, the interurban service was further reduced to the central business district. In 1951, for a brief period, both bus and railway service was provided in the Milwaukee-Waukesha corridor by Waukesha Transit Lines. Due to financial losses, the electric interurban railway service was discontinued in 1951. Wisconsin Coach Lines, formerly Waukesha Transit Lines, ran private city bus service until 1975, when the service ceased due to declining patronage.

Waukesha Metro Transit has steadily grown since opening in 1981 and carried 706,447 passengers in 2014. Waukesha Metrolift, a demand-responsive paratransit service required under federal regulations for those persons unable to ride fixed route transit because of disability, was started in March 1982. Contracted to a private transit carrier at first, the Metrolift service was brought in-house in June 1995. The Metrolift service carried 11,916 disabled persons in 2014 at a fare double the fixed route adult fare.

The initial transit terminal in the River Front Parking Lot, currently used for the Farmer's Market, opened in 1983. Waukesha Metro recorded its 1 Millionth Rider in October 1984, 10 Millionth Rider in March 2000 and 20 Millionth Rider in May 2013. Saturday service began on February 11, 1985 and service to Brookfield Square began on August 31, 1992, providing a connection with Milwaukee County Transit System. Night service began on August 26, 1996 and Sunday Service began on June 17, 2001. When these new service types are piloted, it is typically through a CMAQ (Congestion Mitigation and Air Quality) Grant for the first few years. This is usually the length of time needed to establish these new services and make them effective. All of these services are still in place today and have been a positive addition to Waukesha Metro Transit service.

When service began in 1981, service was provided with nine leased buses from Nashville and the buses were parked outside the City Garage. Service was provided Monday-Friday, daytime hours only with an adult fare of \$0.50. Today, the City of Waukesha currently owns 29 buses, 7 paratransit and 22 fixed-route buses. All 29 buses are ADA accessible, with two wheelchair passengers able to be accommodated on each of the fixed-route buses. The transit system operates service seven days a week with an adult fare of \$2.00. The transit system has extended service beyond city boundaries where appropriate. Frequent service is operated in the Bluemound Road corridor in the Town and City of Brookfield to the Brookfield Square Mall. This service is funded by Waukesha County.

The transit system operates out of two fixed facilities. The Badger Drive facility is the administrative and maintenance facility that provides indoor storage for the buses and all maintenance and administrative functions of the transit system are conducted from this facility. The original building opened in March 1986 and there was a building expansion in 1995 that added on to both the bus storage area and administrative facility. The other facility is the downtown transit center located on St. Paul Avenue near the Fox River. Buses meet at the transit center every half hour to facilitate transfers with no long waits between buses for bus riders. The downtown transit center opened in October 2004 and provides an indoor waiting area, covered bus bays and staffs the Transportation Department personnel for direct customer service.

To pay the cost of operating the system, the City of Waukesha receives grants from the Federal Transit Administration (FTA) and the Wisconsin Department of Transportation (WISDOT). Federal and state operating grants cover up to 60 percent of expenses, with the farebox revenue covering about 20 percent. This leaves about 20 percent of the cost as a City taxpayer expense. Federal grants for capital expenses (buses, structures, etc.) cover up to 80 percent of expenses. As a condition of receiving federal and state operating grants, the transit system is subject to state mandated efficiency and effectiveness measures. Waukesha Metro Transit has consistently performed well when measured in a peer group of other state transit systems as well as a national peer group.

In March 2003, the transit system successfully won a competitive procurement to administer the Waukesha County transit service. The County transit service, which is all contracted to other transit operators (including Waukesha Metro Transit), operates countywide with an emphasis on commuter service between Milwaukee and various Waukesha County communities. The City of Waukesha holds all of the grants received from the Federal Transit Administration (FTA) and the Wisconsin Department of Transportation (WISDOT). In order for Waukesha County transit to receive proper credit for their share of the grant funding, Waukesha Metro Transit acts as a pass through and pays all of the contractors directly for operating the Waukesha County transit service. Thus, both Waukesha Metro Transit and Waukesha County Transit revenue and expenses are reflected on the financial statements.

Basic Financial Statements

Waukesha Metro Transit is an Enterprise Fund of the City of Waukesha. The City of Waukesha hires a management firm to manage the employees that operate the transit system. The employees all work for the company called Professional Transit Management of Waukesha, Inc. There is only one City of Waukesha employee at Waukesha Metro Transit, the Transit Manager.

As an Enterprise Fund, the same basis of accounting as a private-sector business is used. Under this method of accounting, the accrual basis of accounting is used. Revenue is recorded when earned and expenses are recorded when incurred.

The statement of net position presents information on the assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of Waukesha Metro Transit's financial position.

Statement of Waukesha Metro Transit's Net Position

| | 2014 | 2013 | 2012 |
|-------------------------------------|--------------|--------------|--------------|
| Assets | | | |
| Current Assets | \$1,951,508 | \$2,715,806 | \$2,066,051 |
| Capital Assets (net of accum. depr) | \$11,656,514 | \$12,518,570 | \$13,122,449 |
| Total Assets | \$13,608,022 | \$15,234,376 | \$15,188,500 |
| Liabilities | | | |
| Current Liabilities | \$488,532 | \$1,160,964 | \$529,662 |
| Non-current Liabilities | \$603,640 | \$699,961 | \$686,907 |
| Total Liabilities | \$1,092,172 | \$1,860,925 | \$1,216,569 |
| Net Assets | | | |
| Net Investment in Capital Assets | \$11,656,514 | \$12,518,570 | \$13,122,449 |
| Unrestricted (deficit) | \$859,336 | \$854,881 | \$849,482 |
| Total Net Assets | \$12,515,850 | \$13,373,451 | \$13,971,931 |

In the Statement of Net Position above, Current Assets are comprised of accounts receivables from vendors and various grants, value of inventories and prepaid items, and advances to the City of Waukesha including the cash accounts which have a negative balance due to the sweep account feature that exists on a nightly basis. The Capital Assets are comprised of land and various plant costs less the accumulated depreciation taken on these plant costs.

Current Liabilities represent accounts payable, accrued payroll liabilities, and compensated absences such as vacation. Non-current Liabilities represent the accrued sick leave balance that covers the liability for those employees with ten years or more of service to the transit system to cover their health insurance premiums after termination of employment.

Net Position is comprised of the two lines above. The first is Net Investment in Capital Assets and will match the value in the asset category for Capital Assets – Net of Accumulated Depreciation. This number truly represents the value of capital assets at any given time. These Capital Assets are purchased with Federal and State grants with a local matching contribution. The second line represents the component of Net Position that doesn't fit into the category Net Investment in Capital Assets. The value of Unrestricted Net Position will vary with the capital purchases that are made each year. If there is an increase in Capital Assets – Net of Accumulated Depreciation there will be an increase in Net Position – Net Investment In Capital Assets and then a subsequent decrease in Unrestricted Net Position. Net Position – Unrestricted represents the value of the transit system at year end if all assets and liabilities were liquidated.

The statement of revenue, expenses and changes in net position reports the operating revenues and expenses and non-operating revenues and expenses of Waukesha Metro Transit for the fiscal year with the difference – the net income or loss – being combined with any capital grants to determine the net change in position for the fiscal year. That change combined with the net position at the end of the previous year equals the net position at the end of the current fiscal year.

Statement of Revenues, Expenses and Changes in Net Position

| | 2014 | 2013 | 2012 |
|--|----------------------|----------------------|----------------------|
| Operating Revenues | | | |
| Passenger fares for transit service | \$1,536,313 | \$1,607,892 | \$1,768,238 |
| Non-transportation revenues | \$46,382 | \$101,589 | \$119,786 |
| Non-transportation revenues - route administration | \$136,986 | \$126,198 | \$133,973 |
| Total Operating Revenues | \$1,719,681 | \$1,835,679 | \$2,021,997 |
| Operating Expenses | | | |
| Salaries and wages | \$2,210,205 | \$2,132,850 | \$2,300,059 |
| Fringe benefits | \$1,441,278 | \$1,505,669 | \$1,672,215 |
| Services | \$584,152 | \$543,790 | \$411,560 |
| Materials and Supplies | \$753,774 | \$784,086 | \$821,177 |
| Utilities | \$108,315 | \$99,420 | \$86,642 |
| Casualty and Liability costs | \$159,432 | \$161,522 | \$171,448 |
| Taxes | \$533 | \$325 | \$718 |
| Purchased transportation services | \$3,443,188 | \$3,593,144 | \$3,959,765 |
| Miscellaneous | \$30,435 | \$60,906 | \$66,092 |
| Depreciation | \$965,499 | \$1,047,825 | \$795,057 |
| Total Operating Expenses | \$9,696,811 | \$9,929,537 | \$10,284,733 |
| Operating Loss | (\$7,977,130) | (\$8,093,858) | (\$8,262,736) |

| | 2014 | 2013 | 2012 |
|---|---------------------|---------------------|---------------------|
| Operating Subsidies | | | |
| Federal/city tire lease grant revenue | \$31,697 | \$32,400 | \$31,484 |
| Local - City of Waukesha | \$1,064,798 | \$989,432 | \$1,312,330 |
| Local - Other | \$674,512 | \$678,875 | \$800,396 |
| State - Operating | \$4,207,784 | \$4,361,428 | \$4,144,198 |
| Prior Year State Grant Close-outs | (\$51,561) | \$479,202 | \$0 |
| Refund Prior Year State Grant Close-outs - Waukesha County | (\$4,808) | (\$221,126) | \$0 |
| CMAQ Grant | \$26,696 | \$31,579 | \$42,954 |
| State I-94 Subsidy | \$0 | \$0 | \$209,288 |
| Federal - Operating | \$1,008,774 | \$1,006,186 | \$927,827 |
| Federal Capital/Operating Assistance Passed To Subrecipient | (\$1,991) | (\$52,955) | \$0 |
| Total Subsidies | \$6,955,901 | \$7,305,021 | \$7,468,477 |
| Loss before Contributions and Transfers | (\$1,021,229) | (\$788,837) | (\$794,259) |
| Capital Contributions - Federal/State | \$75,478 | \$442,707 | \$632,328 |
| Capital Contributions - Local | \$31,781 | \$5,726 | \$43,413 |
| Transfers Out | \$56,369 | (\$258,076) | \$0 |
| Change in Net Assets | (\$857,601) | (\$598,480) | (\$118,518) |
| Net Assets - Beginning of Year | \$13,373,451 | \$13,971,931 | \$14,090,449 |
| Net Assets - End of Year | \$12,515,850 | \$13,373,451 | \$13,971,931 |

The transit system saw a 6.3% decrease in operating revenue from 2013 to 2014 which is attributable to a 4% decrease in service hours for the City and a decrease in advertising revenue.

The transit system saw a 2.3% decrease in total operating expenses from 2013 to 2014. The majority of the decrease can be attributed to the City operating 4% less service hours.

Capital Assets

Waukesha Metro Transit's capital assets are 80% funded by Federal Transit Administration grants. The remaining 20% is funded through local tax levy dollars, both current and past years through carryover requests.

In 2012, Waukesha Metro Transit purchased \$675,740 in capital grants. Of these purchases \$217,064 were reimbursed by the FTA at 80% (\$173,651) and the \$458,676 purchase was reimbursed at 100% by the FTA under the ARRA Grant.

These capital grant expenditures included the first progress payment for new fareboxes, the rebuilding of 3 bus engines to extend their useful life, new bus stop pads and signs, and the replacement of the HVAC system at the Badger Drive facility.

In 2013, Waukesha Metro Transit purchased \$448,433 in capital grants. Of these purchases \$442,707 was the federal share and \$5,726 was the local match. Most of the purchases this year was made from an ARRA Grant and reimbursed at 100% by the FTA.

These capital grant expenditures included fareboxes for the entire fleet, security cameras for 13 buses, various ADP hardware items, fascia project at Badger Drive facility, shop equipment and enhancement projects.

In 2014, Waukesha Metro Transit purchased \$107,259 in capital grants. Of these purchases \$75,478 was the federal share and \$31,781 was the local match.

These capital grant expenditures included the rebuilding of bus engines to extend their useful life, building wash lane door replacement, a new service vehicle, building floor scrubber, bus build preproduction expenses and enhancement projects.

This financial report is intended to provide readers with a general overview of the finances of Waukesha Metro Transit. Questions concerning any information within this report may be directed to the Finance Director at 2311 Badger Drive, Waukesha, WI 53188.

Snap Shot of Transportation

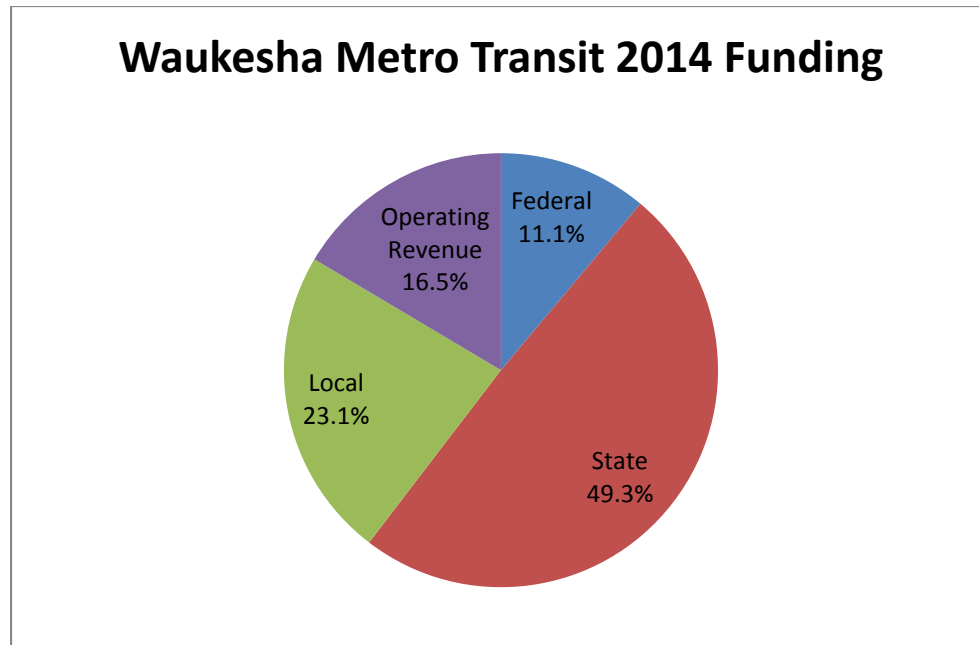
- 718,363 total ridership in 2014, 5.38% decrease
- Serving the City of Waukesha, Town and City of Brookfield & Village of Pewaukee
- Operates 11 fixed routes & Metrolift paratransit service
- 22 fixed route buses & 7 Metrolift buses
- 1 Transit Center & 1 Administration and Maintenance facility



Performance and Cost Efficiency: Waukesha Metro Transit

| Fixed Route – City of Waukesha | 2014 | 2013 | 2012 |
|--------------------------------|---------|---------|---------|
| Revenue Hours | 51,365 | 53,623 | 53,604 |
| Revenue Miles | 664,064 | 710,817 | 710,105 |
| Unlinked Trips | 706,447 | 746,793 | 774,145 |
| Cost per Trip | \$ 6.32 | \$ 5.97 | \$ 6.07 |
| Trips per Hour | 13.75 | 13.93 | 14.44 |

| ADA Paratransit—City of Waukesha | 2014 | 2013 | 2012 |
|----------------------------------|----------|----------|----------|
| Revenue Hours | 6,872 | 7,077 | 9,334 |
| Revenue Miles | 72,228 | 71,512 | 92,011 |
| Unlinked Trips | 11,916 | 12,398 | 17,759 |
| Cost per Trip | \$ 51.06 | \$ 49.04 | \$ 36.07 |
| Trips per Hour | 1.73 | 1.75 | 1.90 |





Snap Shot of Transportation

- 427,100 total ridership in 2014, 4.4% decrease
- Serving Waukesha County and portions of Milwaukee County
- 7 fixed routes & paratransit service
- All services contracted out
-

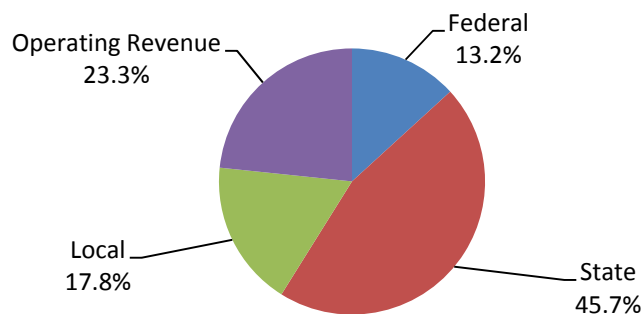
| Contractor | Service |
|--------------------------|--------------------------|
| Wisconsin Coach Lines | Route 901, 904, 905, 906 |
| Milwaukee County Transit | Route 10 & 79 |
| Waukesha Metro Transit | Route 1 (Portion) |
| Transit Express | ADA Paratransit |

Performance and Cost Efficiency: Waukesha County Transit System

| Fixed Route-- Waukesha County | 2014 | 2013 | 2012 |
|----------------------------------|---------|---------|---------|
| Revenue Hours | 22,291 | 22,109 | 24,239 |
| Revenue Miles | 485,920 | 475,731 | 512,328 |
| Unlinked Trips | 423,423 | 441,307 | 478,111 |
| Cost per Trip | \$ 8.25 | \$ 8.07 | \$ 7.93 |
| Trips per Hour | 19.00 | 19.96 | 19.72 |

| ADA Paratransit— Waukesha County | 2014 | 2013 | 2012 |
|-------------------------------------|----------|----------|----------|
| Revenue Hours | 1,430 | 2,220 | 3,383 |
| Revenue Miles | 20,851 | 29,682 | 43,425 |
| Unlinked Trips | 3,677 | 5,856 | 9,028 |
| Cost per Trip | \$ 45.89 | \$ 43.13 | \$ 39.84 |
| Trips per Hour | 2.57 | 2.64 | 2.67 |

Waukesha County Transit System 2014 Funding



WAUKESHA METRO TRANSIT

STATEMENTS OF NET POSITION As of December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Accounts receivable | | |
| State of Wisconsin capital and operating grants | \$ 654,286 | \$ 1,738,524 |
| Federal capital and operating grants | 189,649 | 290,443 |
| Waukesha County | 253,189 | 304,956 |
| Other | 44,762 | 42,926 |
| Due from other funds | 586,876 | 121,601 |
| Inventories | 141,990 | 140,021 |
| Prepaid items | 80,756 | 77,335 |
| Total Current Assets | <u>1,951,508</u> | <u>2,715,806</u> |
| NONCURRENT ASSETS | | |
| Capital Assets | | |
| Land | 1,683,701 | 1,683,701 |
| Plant in service (at cost) | 21,453,178 | 21,599,887 |
| Accumulated depreciation | <u>(11,480,365)</u> | <u>(10,765,018)</u> |
| Total Noncurrent Assets | <u>11,656,514</u> | <u>12,518,570</u> |
| Total Assets | <u>13,608,022</u> | <u>15,234,376</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 410,820 | 669,969 |
| Payable to Waukesha County | - | 371,985 |
| Accrued liabilities | 23,276 | 70,992 |
| Compensated absences | 54,436 | 48,018 |
| Total Current Liabilities | <u>488,532</u> | <u>1,160,964</u> |
| NONCURRENT LIABILITIES | | |
| Other liabilities | 105,056 | 105,056 |
| Compensated absences | 498,584 | 594,905 |
| Total Noncurrent Liabilities | <u>603,640</u> | <u>699,961</u> |
| Total Liabilities | <u>1,092,172</u> | <u>1,860,925</u> |
| NET POSITION | | |
| Net investment in capital assets | 11,656,514 | 12,518,570 |
| Unrestricted | <u>859,336</u> | <u>854,881</u> |
| NET POSITION | <u>\$ 12,515,850</u> | <u>\$ 13,373,451</u> |

See accompanying notes to financial statements.

WAUKESHA METRO TRANSIT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|---------------|---------------|
| OPERATING REVENUES | | |
| Passenger fares for transit service | \$ 1,536,313 | \$ 1,607,892 |
| Non-Transportation Revenue | | |
| Advertising | 46,382 | 101,589 |
| Other | 136,986 | 126,198 |
| Total Operating Revenues | 1,719,681 | 1,835,679 |
| OPERATING EXPENSES | | |
| Operation and maintenance | 8,731,311 | 8,881,712 |
| Depreciation | 965,500 | 1,047,825 |
| Total Operating Expenses | 9,696,811 | 9,929,537 |
| Operating Loss | (7,977,130) | (8,093,858) |
| OPERATING SUBSIDIES | | |
| Tire lease | 31,697 | 32,400 |
| Local - City of Waukesha | 1,064,798 | 989,432 |
| Local - Other | 674,512 | 678,875 |
| State | 4,207,784 | 4,361,428 |
| Prior year state grant close-outs | (51,561) | 479,202 |
| Allocation of prior year state grant close-outs - Waukesha County | (4,808) | (221,126) |
| Federal | 1,035,470 | 1,037,765 |
| Federal capital/operating assistance passed to subrecipient | (1,991) | (52,955) |
| Total Nonoperating Revenues | 6,955,901 | 7,305,021 |
| Loss Before Contributions and Transfers | (1,021,229) | (788,837) |
| CAPITAL CONTRIBUTIONS | 75,478 | 442,707 |
| CAPITAL CONTRIBUTIONS - MUNICIPALITY | 31,781 | 5,726 |
| TRANSFERS (IN)/OUT - REFUND PRIOR YEAR STATE GRANT CLOSE-OUTS - CITY | 56,369 | (258,076) |
| Change in Net Position | (857,601) | (598,480) |
| NET POSITION - Beginning of Year | 13,373,451 | 13,971,931 |
| NET POSITION - END OF YEAR | \$ 12,515,850 | \$ 13,373,451 |

See accompanying notes to financial statements.

WAUKESHA METRO TRANSIT

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|----------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from customers | \$ 1,717,845 | \$ 1,849,149 |
| Paid to suppliers for goods and services | (7,388,539) | (6,605,384) |
| Paid to employees for services | (2,210,205) | (2,132,850) |
| Cash Flows From Operating Activities | (7,880,899) | (6,889,085) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Operating subsidies received - local | 1,470,653 | 1,419,501 |
| Operating subsidies received - state | 5,240,461 | 3,988,376 |
| Operating subsidies received - federal | 1,168,057 | 1,066,404 |
| Pass through of federal operating subsidies | (1,991) | (52,955) |
| Cash Flows From Noncapital Financing Activities | 7,877,180 | 6,421,326 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital contributions | 107,163 | 911,705 |
| Acquisition and construction of capital assets | (103,444) | (443,946) |
| Cash Flows From Capital and Related Financing Activities | 3,719 | 467,759 |
| Net Change in Cash and Cash Equivalents | - | - |
| CASH AND CASH EQUIVALENTS - Beginning of Year | - | - |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ - | \$ - |
| NONCASH CAPITAL AND FINANCING ACTIVITIES | | |
| Change in capital grant receivables | \$ 96 | \$ (463,272) |
| Change in operating grant receivables | \$ (1,236,895) | \$ 997,604 |

| | <u>2014</u> | <u>2013</u> |
|---|------------------------------|------------------------------|
| RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating loss | \$ (7,977,130) | \$ (8,093,858) |
| Noncash items included in operating loss | | |
| Depreciation | 965,500 | 1,047,825 |
| Change in assets and liabilities | | |
| Accounts receivable - other | (1,836) | 13,470 |
| Due from other funds | (465,275) | (121,601) |
| Inventories | (1,969) | (1,983) |
| Prepaid items | (3,421) | (5,309) |
| Accounts payable | (259,149) | 315,233 |
| Due to other funds | - | (36,508) |
| Compensated absences | (89,903) | 4,065 |
| Other current liabilities | (47,716) | (10,419) |
| | <u> </u> | <u> </u> |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>\$ (7,880,899)</u> | <u>\$ (6,889,085)</u> |

See accompanying notes to financial statements.

WAUKESHA METRO TRANSIT

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Waukesha Metro Transit (transit) 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 transit are described below:

REPORTING ENTITY

Waukesha Metro Transit, an enterprise fund of the City of Waukesha (city), provides public bus transportation in the city and surrounding communities. The transit is governed by the Transit Commission Board which consists of city council members and citizen representatives. Waukesha Metro Transit, under contract, performs the administrative functions of the Waukesha County Transit System.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The transit 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.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

ASSETS, LIABILITIES, AND NET POSITION

Deposits and Investments

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.

Investment of transit funds is restricted by state statutes. 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, the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
3. Bonds or securities issued or guaranteed by the federal government.

WAUKESHA METRO TRANSIT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

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

ASSETS, LIABILITIES, AND NET POSITION (cont.)

Deposits and Investments (cont.)

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.

The transit is included in the city's investment policy which follows the state statutes for allowable investments.

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

Accounts Receivable

Outstanding balances between the transit and other funds of the municipality are reported as due to/from other funds.

Transit considers receivables from government units to be fully collectible; accordingly, no allowance for doubtful accounts from governmental units is presented.

Inventories

Materials and supplies are generally used for operation and maintenance work, not for resale. They are valued at lower of cost or market utilizing the first-in first-out method and charged to operation and maintenance expense when used.

Prepaid Items

Prepayments represent costs of services and insurance policies paid during the current audit year for coverage in subsequent years.

Capital Assets

Capital assets are defined by the transit as assets with an initial, individual cost of at least \$5,000 and an estimated useful life in excess of one year.

WAUKESHA METRO TRANSIT

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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

ASSETS, LIABILITIES, AND NET POSITION (cont.)

Capital Assets (cont.)

Additions to and replacements of transit 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, generally, together with removal costs less salvage, is charged to accumulated depreciation. The provision for depreciation shown in the financial statements results from the application of straight-line rates to original costs.

A summary of depreciation lives follows:

| | <u>Years</u> |
|----------------------|--------------|
| Building | 25 |
| Vehicles | 2–12 |
| Shop Equipment | 2–10 |
| Office equipment | 3–10 |
| Bus stop signs | 10 |
| Shelters and benches | 5–10 |

Tire Lease Subsidy

Certain major vehicle repair parts such as tires, transmissions, differentials, etc. as well as certain special studies are eligible for funding under federal capital grants. These items are called “capital associated maintenance items.” In the year these items are purchased, they are recorded as operating expenses and the related capital grants are recorded as federal operating assistance. The tire lease subsidy revenue represents federal grant revenue provided for tire leases and thus recognized as operating assistance.

Compensated Absences

All permanent employees are allowed to accumulate up to 920 hours of sick time. For employees hired prior to February 6, 2013, upon the retirement with ten or more years of seniority, the employee’s unused accumulated sick leave shall be paid out on the final paycheck. For employees hired after February 6, 2013, upon the retirement after age 55 and with fifteen or more years of seniority, the employee’s unused accumulated sick leave shall be paid out on the final paycheck. This liability is reported as a long term liability on the statements of net position.

Employees earn varying amounts of vacation based on years of service. Vacation time is accrued throughout the year. This liability is reported as a current liability on the statements of net position.

Other Liabilities

The balance consists of funds received from the county to be applied to future service costs.

WAUKESHA METRO TRANSIT

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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

REVENUES AND EXPENSES

Revenue Recognition

The transit system distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services. The principal operating revenues of the transit system are charges to customers for services. In addition, the transit system 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.

Charges for Services

Waukesha Metro Transit fares are recorded as revenue continuously through the year. Current fares were made effective May 1, 2013 as approved by the Waukesha Transit Commission Board.

Capital Contributions

The transit has received federal, state, local and other grants to pay a portion of the costs of capital assets or capital associated maintenance items. The value of property contributed to the transit is reported as revenues on the statement of revenues, expenses and statement of net position.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved the following:

- > Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*
- > Statement No. 71, *Pension – Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*

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.

NOTE 2 – DEPOSITS AND INVESTMENTS

Generally accepted accounting principles require the disclosure of the transit's cash and investment balances and their applicable investment insurance coverage. The transit cash and investments are commingled with the entire city; therefore, individual fund bank balances cannot be determined. Please refer to the citywide statements for further information.

WAUKESHA METRO TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of the Interfund balances for the years ending December 31, 2014 and 2013:

| Due To | Due From | 2014 | | 2013 | |
|---------|--------------|-----------|----------------------------------|------------|----------------------------------|
| | | Amount | Principal Purpose | Balance | Principal Purpose |
| Transit | Municipality | \$586,876 | Capital and operating activities | \$ 121,601 | Capital and operating activities |

NOTE 4 – CHANGES IN CAPITAL ASSETS

A summary of changes in transit capital assets for 2014 and 2013 follows:

| | Balance 1/1/14 | Additions | Retirements | Balance 12/31/14 |
|--|-------------------|-----------|-------------|---------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 1,683,701 | \$ - | \$ - | \$ 1,683,701 |
| Capital assets being depreciated | | | | |
| Building | 12,153,446 | 11,625 | - | 12,165,071 |
| Vehicles | 6,621,056 | 21,630 | (255,213) | 6,387,473 |
| Shop equipment | 1,686,002 | 62,219 | | 1,748,221 |
| Office equipment | 1,139,383 | 13,030 | | 1,152,413 |
| Total Capital Assets Being Depreciated | 21,599,887 | 108,504 | (255,213) | 21,453,178 |
| Total Capital Assets | 23,283,588 | 108,504 | (255,213) | 23,136,879 |
| Less: Accumulated depreciation | | | | |
| Building | (3,936,152) | (330,769) | | (4,266,921) |
| Vehicles | (4,941,882) | (387,265) | 249,513 | (5,079,634) |
| Shop equipment | (944,466) | (188,951) | | (1,133,417) |
| Office equipment | (942,518) | (57,875) | | (1,000,393) |
| Total Accumulated Depreciation | (10,765,018) | (964,860) | 249,513 | (11,480,365) |
| Net Transit System Plant | \$ 12,518,570 | | | \$ 11,656,514 |

WAUKESHA METRO TRANSIT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 4 – CHANGES IN CAPITAL ASSETS (cont.)

| | Balance 1/1/13 | Additions | Retirements | Balance 12/31/13 |
|--|----------------------|------------------|------------------|----------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 1,683,701 | \$ - | \$ - | \$ 1,683,701 |
| Capital assets being depreciated | | | | |
| Building | 12,069,458 | 84,274 | (286) | 12,153,446 |
| Vehicles | 7,089,744 | - | (468,688) | 6,621,056 |
| Shop equipment | 1,734,496 | 299,505 | (347,999) | 1,686,002 |
| Office equipment | 1,144,427 | 64,654 | (69,698) | 1,139,383 |
| Total Capital Assets Being Depreciated | <u>22,038,125</u> | <u>448,433</u> | <u>(886,671)</u> | <u>21,599,887</u> |
| Total Capital Assets | <u>23,721,826</u> | <u>448,433</u> | <u>(886,671)</u> | <u>23,283,588</u> |
| Less: Accumulated depreciation | | | | |
| Building | (3,612,212) | (324,198) | 258 | (3,936,152) |
| Vehicles | (5,015,905) | (389,267) | 463,290 | (4,941,882) |
| Shop equipment | (1,012,998) | (180,561) | 249,093 | (944,466) |
| Office equipment | (958,262) | (53,138) | 68,882 | (942,518) |
| Total Accumulated Depreciation | <u>(10,599,377)</u> | <u>(947,164)</u> | <u>781,523</u> | <u>(10,765,018)</u> |
| Net Transit System Plant | <u>\$ 13,122,449</u> | | | <u>\$ 12,518,570</u> |

NOTE 5 – OPERATING SUBSIDIES

The transit receives operating subsidies from the federal, state and local governments. The transit submits an annual request for federal and state subsidies. Federal subsidies are provided for preventative maintenance and third party contracting while state subsidies are limited by 1) the maximum amount of the grant award, 2) five times the local contribution, and 3) the non-federal share of the audited operating deficit. The transit combined state and federal operating assistance shall not exceed 60% of audited operating expenses.

State operating assistance is received in quarterly payments from the Wisconsin Department of Transportation. A portion of the fourth quarter is withheld pending final audit by the DOT staff.

WAUKESHA METRO TRANSIT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 5 – OPERATING SUBSIDIES (cont.)

Local subsidies are contributions made by the City of Waukesha, Waukesha County, and the Town of Brookfield based on their applicable share of revenues. Operating assistance for 2014 and 2013 was as follows:

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Governmental Unit | | |
| Federal (net of amounts passed to sub recipients)* | \$ 1,006,783 | \$ 953,230 |
| Federal/City – tire lease | 31,697 | 32,400 |
| Federal-CMAQ | 26,696 | 31,580 |
| State of Wisconsin | 4,109,826 | 4,282,160 |
| State Paratransit Aid | 97,958 | 79,268 |
| Local | | |
| City of Waukesha | 1,064,798 | 989,432 |
| Waukesha County | 666,812 | 671,437 |
| Town of Brookfield | 7,700 | 7,438 |
| | <u>\$ 7,012,270</u> | <u>\$ 7,046,945</u> |

* In 2013 and 2014, the transit passed through federal enhancement funds to Waukesha County for new bus shelters.

In 2014, the State of Wisconsin Department of Transportation (DOT) completed the final review of the operating grants for 2009 through 2012. This resulted in additional money due back to the transit. Since the City of Waukesha and Waukesha County subsidize the deficit of the transit, these funds were transferred proportionately to the City and Waukesha County. In early 2015, the DOT completed the final review of the operating grant for 2013 which resulted in a reduced final receivable from the State. The difference will be provided proportionately by the City and Waukesha County. As there is no net impact to the transit, the schedule above does not include the accrual of prior year state grant close-out activity.

NOTE 6 – LONG-TERM OBLIGATIONS

LONG-TERM OBLIGATIONS SUMMARY

| | 1/1/14 Balance | Additions | Reductions | 12/31/14 Balance | Due Within One Year |
|----------------------|-------------------|------------------|-------------------|---------------------|------------------------|
| Other Liabilities | \$ 105,056 | \$ - | \$ - | \$ 105,056 | \$ - |
| Compensated Absences | 594,905 | 69,709 | 166,030 | 498,584 | - |
| Totals | <u>\$ 699,961</u> | <u>\$ 69,709</u> | <u>\$ 166,030</u> | <u>\$ 603,640</u> | <u>\$ -</u> |
| | 1/1/13 Balance | Additions | Reductions | 12/31/13 Balance | Due Within One Year |
| Other Liabilities | \$ 105,056 | \$ - | \$ - | \$ 105,056 | \$ - |
| Compensated Absences | 581,851 | 72,096 | 59,042 | 594,905 | - |
| Totals | <u>\$ 686,907</u> | <u>\$ 72,096</u> | <u>\$ 59,042</u> | <u>\$ 699,961</u> | <u>\$ -</u> |

WAUKESHA METRO TRANSIT

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 7 – NET POSITION

GASB No. 34 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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 are 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. As of December 31, 2014 and 2013, Waukesha Metro Transit does not have any outstanding debt.

Restricted – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of December 31, 2014 and 2013, Waukesha Metro Transit had no restricted assets nor restricted net position.

Unrestricted net position – The component of net position consist of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

NOTE 8 – RISK MANAGEMENT (COMMERCIAL/SELF INSURANCE)

The transit 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. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN (TMI)

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

In 2014, TMI issued to the city an auto liability insurance policy with a \$250,000 per person policy limit and a \$7,000,000 per accident policy limit. Of the per accident policy limit, TMI insures \$2,000,000 and reinsures \$5,000,000 with Genesis Insurance. In addition, the city’s policy provides for \$25,000 per person and \$50,000 per accident in uninsured motorist insurance.

The physical damage policy issued by TMI to the city provides collision and comprehensive coverage for the lesser of the agreed value or the cost of repairs minus a \$500 per accident deductible for private passenger and service units and a \$1,000 per accident deductible for bus units.

WAUKESHA METRO TRANSIT

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 8 – RISK MANAGEMENT (COMMERCIAL/SELF INSURANCE) (cont.)

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

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

The city's share of this corporation is 4.90% for auto liability and 11.91% of physical damage 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 9 – COMMITMENTS AND CONTINGENCIES

GRANTS

Waukesha Metro Transit has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

LONG TERM CONTRACTS FOR PURCHASED TRANSPORTATION

Transit has certain contracts for purchased transportation that extend beyond year end.

Waukesha Metro Transit has contracted with Veolia Transportation to provide management and operational staffing. As such, substantially all employees are employees of Professional Transit Management of Waukesha, Inc. (a subsidiary of Veolia Transportation); however, labor and benefits are recorded in compliance with the Federal Transit Administration chart of accounts. For the years ended December 31, 2014 and 2013, the transit paid \$111,333 and \$104,068, respectively, in retirement costs for the retirement plan maintained by Professional Transit Management of Waukesha, Inc.

NOTE 10 – SUBSEQUENT EVENTS

PURCHASE OF BUSES

Waukesha Metro Transit has an executed contract for the purchase of three buses, the first of which will be received in 2015. The total cost is \$1,146,000 with approximately 83% to be funded through federal grants.

SUPPLEMENTAL INFORMATION

WAUKESHA METRO TRANSIT

DETAILED SCHEDULE OF WAUKESHA TRANSIT
 COMMISSION – STATEMENTS OF NET POSITION - REGULATORY BASIS
 As of December 31, 2014 and 2013

| | 2014 | 2013 |
|---|----------------------|----------------------|
| ASSETS | | |
| 101. Cash and cash items | \$ (488,893) | \$ (45,378) |
| 102. Receivables | | |
| Federal – capital | 50,637 | 50,541 |
| Federal – capital maintenance, paratransit and contracting | 134,709 | 238,308 |
| State – operating | 654,286 | 1,738,524 |
| CMAQ | 4,303 | 1,594 |
| Other | 297,952 | 347,882 |
| 103. Materials and supplies inventory | 141,990 | 140,021 |
| 111. Tangible transit operating property – net of accumulated depreciation of \$11,480,365 in 2014 and \$10,765,018 in 2013 | 11,656,514 | 12,518,570 |
| 151. Prepayments | 80,756 | 77,335 |
| Total Assets | 12,532,254 | 15,067,397 |
| LIABILITIES AND NET POSITION | | |
| 201. Payables | | |
| Trade payables | 410,821 | 669,969 |
| Payable to Waukesha County | - | 371,985 |
| 202. Accrued payroll liabilities | 23,276 | 70,992 |
| 202. Accrued compensated absences | 553,020 | 642,923 |
| 205. Other liabilities | 105,056 | 105,056 |
| 211. Advances from (to) city | (1,075,769) | (166,979) |
| Total Liabilities | 16,404 | 1,693,946 |
| Net investment in capital assets | 11,656,514 | 12,518,570 |
| Unrestricted | 859,336 | 854,881 |
| TOTAL NET POSITION | \$ 12,515,850 | \$ 13,373,451 |

WAUKESHA METRO TRANSIT

DETAILED SCHEDULE OF WAUKESHA TRANSIT COMMISSION -
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - REGULATORY BASIS
For the Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|--|----------------------|----------------------|
| REVENUE | | |
| 401. Passenger fares for transit service | \$ 1,536,313 | \$ 1,607,892 |
| 406. Non-transportation revenues | 47,716 | 102,743 |
| 407. Non-transportation revenues - route administration | 128,045 | 125,044 |
| 408. City tire lease grant revenue | 6,339 | 6,480 |
| 408. Federal tire lease grant revenue | 25,358 | 25,920 |
| 409. Local cash grants and reimbursements - operating | 1,739,310 | 1,668,307 |
| 409. Refund prior year state grant close-outs | 51,561 | (479,202) |
| 409.105 Local cash grants and reimbursements - capital | 31,781 | 5,726 |
| 411. State cash grants and reimbursements | 4,109,826 | 4,282,160 |
| 411. Prior year state grant close-outs | (51,561) | 479,202 |
| 411. State paratransit aid | 97,958 | 79,268 |
| 411. State I-94 Subsidy | 7,607 | - |
| 413. Federal cash grants and reimbursements - operating | 1,006,783 | 953,230 |
| 413. CMAQ grant | 26,696 | 31,580 |
| 413. Federal cash grants and reimbursements - county enhancements | 1,991 | 52,955 |
| 413. Federal cash grants and reimbursements - passed through to subrecipient | (1,991) | (52,955) |
| 413.105 Federal cash grants and reimbursements - capital | 75,478 | 442,707 |
| TOTAL REVENUE | 8,839,210 | 9,331,057 |
| EXPENSES – BY OBJECT CLASS TOTAL | | |
| 501.01 Operations salaries and wages | 1,346,865 | 1,309,389 |
| 501.02 Other salaries and wages | 863,340 | 823,461 |
| 502. Fringe benefits and FICA | 1,441,278 | 1,505,669 |
| 503. Services | 584,152 | 543,790 |
| 504.01 Fuel and lubricants | 542,391 | 602,207 |
| 504.02 Tires and tubes | 31,697 | 32,399 |
| 504.99 Other materials and supplies | 179,686 | 149,480 |
| 505. Utilities | 108,315 | 99,420 |
| 506. Casualty and liability costs | 159,432 | 161,522 |
| 507. Taxes | 533 | 325 |
| 508. Purchased transportation | 3,443,188 | 3,593,144 |
| 509. Miscellaneous expense | 30,434 | 60,906 |
| Total Operation and Maintenance Expenses | 8,731,311 | 8,881,712 |
| Reconciling Items | | |
| Loss on asset disposal | 640 | 912 |
| 513. Depreciation | 964,860 | 1,046,913 |
| Total Reconciling Items | 965,500 | 1,047,825 |
| TOTAL EXPENSES AND RECONCILING ITEMS | 9,696,811 | 9,929,537 |
| CHANGE IN NET POSITION | (857,601) | (598,480) |
| NET POSITION - Beginning of Year | 13,373,451 | 13,971,931 |
| NET POSITION - END OF YEAR | \$ 12,515,850 | \$ 13,373,451 |

WAUKESHA METRO TRANSIT

WAUKESHA TRANSIT COMMISSION -
RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL
RECOGNIZED REVENUES AND EXPENSES - REGULATORY BASIS
For the Year Ended December 31, 2014

| | <u>Per WisDOT Guidelines</u> | <u>Per Federal Guidelines</u> |
|---|--------------------------------------|---------------------------------------|
| Revenues from Waukesha Transit Commission's records | \$ 8,839,210 | \$ 8,839,210 |
| Less: Unrecognized Revenues | | |
| 406. Non-transportation revenues | 1,334 | 47,716 |
| 407. Non-transportation revenues - route administration | 128,045 | 128,045 |
| 408. Local tire lease revenue | 6,339 | 6,339 |
| 409. Local operating assistance | 1,739,310 | 1,739,310 |
| 411. State operating assistance | 4,109,826 | 4,109,826 |
| 411. State paratransit aid | 97,958 | 97,958 |
| 411. State CMAQ grants | - | - |
| 411. State I-94 Subsidy | 7,607 | - |
| 413. Federal operating assistance | 1,006,783 | 1,006,783 |
| 413. Federal tire lease revenue | 25,358 | 25,358 |
| 413. Federal mandatory transit improvement revenue | - | - |
| 413. CMAQ grant | 26,696 | 26,696 |
| 413.105 Other non-operating revenues (capital funding & subrecipient costs) | <u>107,259</u> | <u>107,259</u> |
| ADJUSTED REVENUES | <u>\$ 1,582,695</u> | <u>\$ 1,543,920</u> |
| Expenses from Waukesha Transit Commission's records | \$ 9,696,811 | \$ 9,696,811 |
| Less: Non-Recognized Expenses | | |
| 513. Depreciation | 964,860 | 964,860 |
| 513. Loss on asset disposal | 640 | 640 |
| Less: CMAQ Grant Funding - not eligible (mkt/night service) - 100% | 33,370 | 33,370 |
| Less: WisDOT Paratransit Costs - not eligible | 97,958 | - |
| Less: I-94 Subsidy - not eligible | <u>7,607</u> | <u>-</u> |
| RECOGNIZED EXPENSES | <u>\$ 8,592,376</u> | <u>\$ 8,697,941</u> |
| RECOGNIZED DEFICITS | <u>\$ (7,009,681)</u> | <u>\$ (7,154,021)</u> |

WAUKESHA METRO TRANSIT

WAUKESHA TRANSIT COMMISSION - COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS For the Year Ended December 31, 2014

FEDERAL SECTION 9 FUNDS

| | | |
|---|----|---------------------|
| Prior Years' Grants Reassigned by FTA | \$ | 43,939 |
| Preventative Maintenance | | 467,022 |
| Federal Tire Lease Grant Revenue | | 28,800 |
| Federal mandatory transit improvement revenue | | 10,017 |
| Capital Cost of Third Party Contracting | | <u>495,822</u> |
| Maximum Federal Share Per Grant Awards | | <u>\$ 1,045,600</u> |

STATE FUNDS

| | | |
|----------------------------------|----|---------------------|
| WisDOT Recognized Deficit | | <u>\$ 7,009,681</u> |
| WisDOT Recognized Expenses | \$ | <u>8,592,376</u> |
| 60% Times Recognized Expenses | \$ | 5,155,426 |
| Less: Federal Share | | <u>1,045,600</u> |
| | | <u>\$ 4,109,826</u> |
| WisDOT Contract Amount | | <u>\$ 4,174,290</u> |
| Local Operating Subsidy | \$ | <u>1,739,310</u> |
| 5 Times Operating Subsidy | | <u>\$ 8,696,550</u> |
| State Share – Contractual Amount | | <u>\$ 4,109,826</u> |

SUMMARY OF 2014 OPERATIONAL FUNDING *

| | Received in 2014** | Receivable 12-31-14 | Totals |
|-------------------------|-----------------------|------------------------|---------------------|
| Federal Section 9 Funds | \$ 872,074 | \$ 134,709 | \$ 1,006,783 |
| State Funds – operating | 3,756,863 | 352,963 | 4,109,826 |
| Local Funds | <u>1,486,121</u> | <u>253,189</u> | <u>1,739,310</u> |
| Total Funding | <u>\$ 6,115,058</u> | <u>\$ 740,861</u> | <u>\$ 6,855,919</u> |

* Excludes local and federal capital assistance, CMAQ, WETAP.

** Excludes 2013 or prior assistance received/(paid) in 2014.

**WAUKESHA METRO TRANSIT
CITY OF WAUKESHA, WISCONSIN
WAUKESHA COUNTY OPERATING
ASSISTANCE CONTRACT**

REPORT ON SUPPLEMENTAL INFORMATION

As of and for the Years Ended December 31, 2014 and 2013

**WAUKESHA METRO TRANSIT
CITY OF WAUKESHA, WISCONSIN
WAUKESHA COUNTY OPERATING ASSISTANCE CONTRACT**

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As of and for the Years Ended December 31, 2014 and 2013

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| Detailed Schedule of Waukesha County Operating Assistance Contract – Statements of Revenues, Expenses and Changes in Net Position | 3 |
| Detailed Schedule of Waukesha County Operating Assistance Contract – Reconciliation of Revenues and Expenses to WisDOT and Federal Recognized Revenues and Expenses – Regulatory Basis | 4 |
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INDEPENDENT AUDITORS' REPORT
ON WAUKESHA COUNTY OPERATING ASSISTANCE CONTRACT

To the Waukesha Transit Commission Board
City of Waukesha
Waukesha, Wisconsin

We have audited the financial statements of Waukesha Metro Transit, an enterprise fund of the City of Waukesha, Wisconsin as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated August 11, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Waukesha County Operating Assistance Contract schedules are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The schedules in this report present only the Waukesha County Operating Assistance Contract and are not intended to present fairly the financial position or changes in financial position of Waukesha Metro Transit or the City of Waukesha in conformity with accounting principles generally accepted in the United States of America.

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
August 11, 2015

**WAUKESHA METRO TRANSIT
CITY OF WAUKESHA
WAUKESHA COUNTY OPERATING ASSISTANCE CONTRACT**

STATEMENTS OF NET POSITION
As of December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------|--------------------|--------------------|
| ASSETS | | |
| 101. Cash and cash items | \$ 38,276 | \$ 131,070 |
| 102. Receivables | | |
| Receivable from Waukesha County | 253,189 | 304,956 |
| State - operating | <u>-</u> | <u>371,985</u> |
| Total Assets | <u>291,465</u> | <u>808,011</u> |
| LIABILITIES AND NET POSITION | | |
| 201. Payables | | |
| Trade payables | 291,465 | 436,026 |
| Payable to Waukesha County | <u>-</u> | <u>371,985</u> |
| Total Liabilities | <u>291,465</u> | <u>808,011</u> |
| TOTAL NET POSITION | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

See Independent Auditors' Report.

**WAUKESHA METRO TRANSIT
CITY OF WAUKESHA
WAUKESHA COUNTY OPERATING ASSISTANCE CONTRACT**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2014 and 2013

| | | 2014 | 2013 |
|---|--|------------|------------|
| REVENUE | | | |
| 401. | Passenger fares for transit service | \$ 876,281 | \$ 930,183 |
| 409. | Local cash grants and reimbursements - operating | 573,102 | 582,189 |
| 409. | Refund prior year state grant close-outs | (4,808) | (221,126) |
| 411. | State cash grants and reimbursements | 1,665,733 | 1,759,745 |
| 411. | Prior year state grant close-outs | 4,808 | 221,126 |
| 411. | State paratransit aid | 42,445 | 33,640 |
| 411. | State I-94 subsidy | 7,607 | - |
| 413. | Federal cash grants and reimbursements - operating | 495,822 | 508,815 |
| | Total Revenue | 3,660,990 | 3,814,572 |
| EXPENSES – BY OBJECT CLASS TOTAL | | | |
| 501.01 | Other wages, benefits and plowing | 89,757 | 96,383 |
| 503. | Contract administration | 128,045 | 125,044 |
| 508. | Purchased transportation | 3,443,188 | 3,593,145 |
| | Total Operation and Maintenance Expenses | 3,660,990 | 3,814,572 |
| CHANGE IN NET POSITION | | - | - |
| NET POSITION - Beginning of Year | | - | - |
| NET POSITION - END OF YEAR | | \$ - | \$ - |

**WAUKESHA METRO TRANSIT
CITY OF WAUKESHA
WAUKESHA COUNTY OPERATING ASSISTANCE CONTRACT**

RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL
RECOGNIZED REVENUES AND EXPENSES - REGULATORY BASIS
For the Year Ended December 31, 2014

| | <u>Per WisDOT Guidelines</u> | <u>Per Federal Guidelines</u> |
|---|--------------------------------------|---------------------------------------|
| Revenues from Waukesha Transit Commission's records | \$ 3,660,990 | \$ 3,660,990 |
| Less Unrecognized Revenues | | |
| 409. Local operating assistance | 573,102 | 573,102 |
| 411. State operating assistance | 1,715,785 | 1,715,785 |
| 413. Federal operating assistance | <u>495,822</u> | <u>495,822</u> |
| ADJUSTED REVENUES | <u>\$ 876,281</u> | <u>\$ 876,281</u> |
| Expenses from Waukesha Transit Commission's records | \$ 3,660,990 | \$ 3,660,990 |
| Less WISDOT I-94 Mitigation Costs - not eligible | 7,607 | - |
| Less State Paratransit Costs - not eligible | 42,445 | - |
| Less Capital Maintenance Funding - not eligible (100%) | <u>-</u> | <u>619,778</u> |
| RECOGNIZED EXPENSES | <u>\$ 3,610,938</u> | <u>\$ 3,041,212</u> |
| RECOGNIZED DEFICITS | <u>\$ (2,734,657)</u> | <u>\$ (2,164,931)</u> |

**WAUKESHA METRO TRANSIT
CITY OF WAUKESHA
WAUKESHA COUNTY OPERATING ASSISTANCE CONTRACT**

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS
For the Year Ended December 31, 2014

FEDERAL SECTION 9 FUNDS

| | | |
|--|--|-------------------|
| Maximum Federal Share Per Grant Awards | | \$ <u>500,831</u> |
|--|--|-------------------|

STATE FUNDS

| | | |
|----------------------------------|---------------------|---------------------|
| WisDOT Recognized Deficit | | \$ <u>2,734,657</u> |
| WisDOT Recognized Expenses | \$ <u>3,610,938</u> | |
| 60% Times Recognized Expenses | 2,166,563 | |
| Less Federal Share | <u>500,831</u> | |
| | | \$ <u>1,665,732</u> |
| WisDOT Contract Amount* | | \$ <u>4,174,290</u> |
| Local Operating Subsidy | \$ <u>573,102</u> | |
| 5 Times Operating Subsidy | | \$ <u>2,865,510</u> |
| State Share – Contractual Amount | | <u>\$ 1,665,732</u> |

*This represents the entire WisDOT Contract, which includes both the City and County portions.

August 11, 2015

Waukesha Transit Commission
City of Waukesha
2311 Badger Drive
Waukesha, WI 53188-5932

Dear Commission Members:

The following are comments highlighting items that came to our attention during our audit of the financial statements of the City of Waukesha Transit (transit) for the year ended December 31, 2014 and 2013, which we reported upon on August 11, 2015. These comments are based on our observations during the audit and are intended to bring information of interest to the Waukesha Transit Commission (Commission).

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

AUDIT REPORT

Beginning in 2011, the transit issued a full audit report in addition to the supplemental schedules historically prepared. This report is prepared with the assistance of management and provides additional detail and understanding of the transit's operations during year and financial position at year end. The transit's financial data continues to be included in the City of Waukesha's Comprehensive Annual Financial Report.

COUNTY INFORMATION THAT FLOWS THROUGH TRANSIT'S FINANCIALS

The transit continues to act as an administrator for county services. Due to this relationship with the county, all federal, state, and local grants that the county receives flow through the transit's revenues on the financial statements. The transit also contracts out for purchased transportation and bills some administrative costs to the county, which show as expenses on the transit's financial statements. If this relationship with the county were to end, the transit's revenues and expenses would decrease; however, there would be minimal overall net effect on income.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

PREPARATION OF 1099'S

It was noted that the transit does not issue 1099's to its vendors. This is requirement for the transit. We recommend that the transit incorporate a formal policy and procedures to ensure that the transit is properly issuing 1099's

TRANSIT OVERSIGHT

Due to the size of the transit, there is limited personnel in the accounting department. Management has worked diligently to implement controls, however, it is important that the Transit Commission stay involved, review information provided, and ask questions.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

STATE OF WISCONSIN DEPARTMENT OF TRANSPORTATION (WISDOT) OPERATING GRANTS

Annually, the transit receives an operating grant from WISDOT for the lesser of 1) a specified dollar amount, 2) the non-federal share of the audited operating deficit, or 3) five times the local contribution with maximum federal and state operating assistance of 60%. In the fourth quarter, 10% of the annual grant amount is withheld until the state completes a final review. The transit had been conservative in their annual accrual and used the budgeted recovery amount, which ranged from 55.27%-58.5% between 2009 and 2012, instead of the maximum recovery of 60%. In early 2014, the state completed the review of 2009 through 2012. The state calculated the final transit grant revenue at the 60% recovery maximum, which resulted in additional money being provided to the transit that had not previously been accrued. Since the City of Waukesha and Waukesha County subsidize the operations of the transit, these funds will be proportionately refunded to these two entities and have no net impact to the transit. In 2013, and going forward, the transit will use the maximum recovery of 60% as defined by the grant agreement in completing the year end accruals.

Status as of 12/31/14

It was noted that the transit received the closeout in 2014 and that the transit is now using the maximum recovery of 60% as defined by the grant agreement in completing the year end accruals.

SUB-RECIPIENT GRANT MONITORING

In 2013, the transit passed through some federal capital grant funds to Waukesha County. From our discussions with management, we understand that this process will continue to occur in future years. As such, it is important that management understand the sub-recipient monitoring requirements under OMB Circular A-133 Part III. Some of the requirements include: determining the sub-recipient eligibility, notifying the sub-recipient of the federal award information (i.e, CFDA title and number, award name, etc), monitoring the sub-recipient's use of the federal awards, and reviewing OMB Circular A-133 audits (including ensuring that the entity has an audit done in compliance with OMB Circular A-133 if federal expenditures exceed \$500,000). We recommend that management review the requirements under the Circular and document their process for how compliance with sub-recipient monitoring will be accomplished.

Status as of 12/31/14

There were minimal capital funds passed to the County in 2014. We continue to recommend management formalize sub-recipient monitoring policy.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS (cont.)

INFORMATION TECHNOLOGY RECOMMENDATIONS

As part of the audit, we were required to identify the processes in place that provide a controlled information technology (IT) environment for the applications, supporting systems and infrastructure determined to be critical to the financial statement audit. We documented the processes in place for each of the three main areas of focus: manage changes, logical access and IT operations. We then assessed the design effectiveness of each of these processes and noted the following opportunities to strengthen the Transit's IT controls.

- > Access should be reviewed once a year by management to ensure users do not have access beyond their job responsibilities. Segregation of duties conflicts should also be reviewed.

Status as of 12/31/14

We continue to recommend that a formal policy be put in place to ensure user access is reviewed annually.

CAPITALIZATION POLICY REVIEW

During the audit, we noted that is no formal capitalization policy followed at the transit. In the past, typically only assets purchased with federal funds have been capitalized. Due to changes in federal funding beginning in 2013, it is important that the transit review and develop a capitalization policy that is followed for all purchases. We recommend that that for federally funded purchases, the FTA guidelines of \$5,000 be utilized. This could also be used for locally purchased assets or a different threshold could be used. Capital assets purchased with federal funds do need to be tracked in the continuing property records (CPR's), therefore; the transit could use separate sub-accounts for tracking federal versus locally funded assets or add that detail to the CPR's.

Status as of 12/31/14

The transit now follow's the city's capitalization policy and has increased the capitalization threshold to \$5,000.

REQUIRED COMMUNICATIONS

As part of the audit process we are required to communicate certain issues related to the internal controls of the transit. As the processes related to the recording and reporting of financial data for the transit are integrated with the city, these communications are included in the report on internal controls for the City of Waukesha as presented to the City Council. In addition, there are certain communications that are required to be made to the governing body related to responsibilities, the scope of the audit and the audit processes. Again, these communications are included in the report on internal controls for the City of Waukesha, including the transit, as presented to the City Council. This letter presents communications related to only transit specific items.

Waukesha Transit Commission
City of Waukesha

August 11, 2015
Page 4

REQUIRED COMMUNICATIONS (cont.)

CORRECTED MISSTATEMENTS (AUDIT ADJUSTMENTS)

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

Management has corrected all such misstatements. The following is a summary of material financial statement misstatements (audit adjustments):

| | <u>Impact</u> |
|---|---------------|
| Properly record the receipt of the 2009-2012 state grant close out funds as a decrease in the grant receivable and flow this through the advance for pooled cash with the city. | \$ 1,365,473 |

MANAGEMENT REPRESENTATIONS

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

CLOSING

Our comments are intended to highlight unique transactions and items that were noted during the financial audit of the transit. We are available to discuss these items in more detail.

We thank transit's personnel for the assistance provided during the audit. Please contact us if you have any questions or comments.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP



August 11, 2015



Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Waukesha Metro Transit as of December 31, 2014 and 2013 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Waukesha Metro Transit and the respective changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
9. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
10. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
11. Guarantees, whether written or oral, under which the transit is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

12. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of Transit Commission Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
16. We have disclosed to you any known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. There are no known related parties or related party relationships and transactions of which we are aware.

Other

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have a process to track the status of audit findings and recommendations.
20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. The transit has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
22. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
23. There are no:
 - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
 - c. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - d. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
24. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
 - a. Financial statement preparation
 - b. Adjusting journal entries
 - c. SEFSA preparation

None of these non attest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
25. The Waukesha Metro Transit has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
26. The Waukesha Metro Transit has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
27. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

28. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
29. The Waukesha Metro Transit has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
30. Provisions for uncollectible receivables have been properly identified and recorded.
31. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
32. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.
33. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
34. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
35. We have appropriately disclosed the Waukesha Metro Transit's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.
36. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
37. With respect to the supplementary information, (SI):
 - a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
38. We understand that the separate supplemental information reports prepared for the Waukesha Transit Commission Board follow regulatory reporting and do not present a complete financial statement including statements of cash flows or required disclosures under generally accepted accounting principles.

39. With respect to federal and state award programs:

- a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, OMB Circular A 133, *Audits of States, Local Governments, and Non-Profit Organizations*, *State Single Audit Guidelines*, including requirements relating to preparation of the schedule of expenditures of federal and state awards (SEFSA).
- b. We acknowledge our responsibility for presenting the SEFSA in accordance with the requirements of OMB Circular A-133 §310.b and the State Single Audit Guidelines, and we believe the SEFSA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b and the *State Single Audit Guidelines*. The methods of measurement and presentation of the SEFSA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFSA.
- c. If the SEFSA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFSA no later than the date we issue the SEFSA and the auditors' report thereon.
- d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the *State Single Audit Guidelines* and included in the SEFSA made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal and state programs that provide reasonable assurance that we are administering our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relevant to the programs and related activities.
- h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement and the *State Single Audit Guidelines*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

- k. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- l. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- m. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- n. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- o. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- p. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance) have occurred subsequent to the date as of which compliance was audited.
- q. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- r. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- s. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133 and the *State Single Audit Guidelines*.
- t. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- u. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- v. We have charged costs to federal and state awards in accordance with applicable cost principles.
- w. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and the *State Single Audit Guidelines* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- x. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- y. We are responsible for preparing and implementing a corrective action plan for each audit finding.

z. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

Sincerely,

Waukesha Metro Transit

Signed: Kari Blodow

Signed: [Signature]