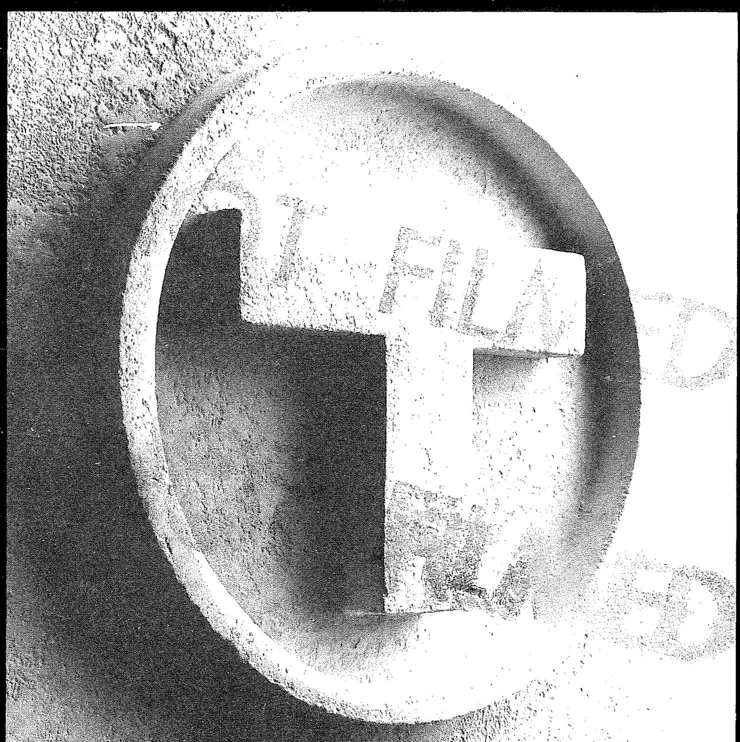
METROPOLITAN TRANSIT COMMISSION



1982 ANNUAL REPORT

OPERATING TRENDS	1982	1981
Ridership	81,608,321	90,725,014
Peak hour buses	817	842
Miles of service	28,827,000	30,465,000
Passengers per mile	2.82	2.95
Base fare	75¢ peak/60¢ off-peak	60¢
All You Can Ride cards sold	391,498	437,474
Workforce	2,293	2,438
Project Mobility ridership	161,222	162,626
Carpoolers assisted	6,852	4,300
Vanpools in operation	190	100

FINANCIAL TRENDS		
Operating revenues	$ 39,659,300	$ 36,839,400
Operating expenses	92,204,400	91,987,300
Operating loss before depreciation	(52,545,100)	(55,147,900)
Percent operating revenues to operating expenses	43.0%	40.0%
Net income (loss)	$ (6,956,100)	$ (5,556,500)
Cash and short term investments	14,960,800	14,373,500
Working capital	15,751,900	19,076,800
Current ratio	1.9	2.1
Property, plant and equipment - net	$ 67,018,900	$ 64,003,200
Total assets	116,772,500	109,285,100
Long term debt	18,110,000	11,050,000
Total equity	81,096,300	80,686,000
Retained earnings available for working capital	19,386,400	21,892,400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BUS INFORMATION
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"People are the common denominator to progress," said John Kenneth Galbraith. He could have been talking about 1982 at the MTC, when the energy of employees moved the agency forward. Faced with budget cuts, falling ridership and service reductions, the MTC had to pull together to make every program count and to improve every service. Efficiency and enthusiasm can move mountains, especially if backed by a strong investment in the future. Despite the financial obstacles, the MTC's transportation services were safer and more reliable in 1982. People are the common denominator to our progress.

FOCUSING ON FINANCES

1982 was a tough year for public transit across the country. Federal and state cutbacks forced many systems, including the MTC, to rely more heavily on local funds and farebox revenue.

The Minnesota Legislature originally appropriated $14.7 million for regular route service during the 1981-83 biennium, compared to $29.2 million for 1979-81. The 1981-83 funding was subsequently reduced to $9.3 million. The United States Congress also voted to reduce operating assistance. The MTC received $8.5 million of federal assistance for 1982, a 20 percent reduction from the $10.7 million provided for 1981. To make up the difference, the MTC had to increase fares and property tax revenues.

The MTC imposed a peak-hour (6:00 - 9:00 a.m. and 3:30 - 6:30 p.m.) weekday surcharge of 15 cents, effective June 1, 1982. State law did not allow the MTC to increase the base fare. Passenger revenue increased $2.9 million over the 1981 level, resulting in a revenue to expense ratio of 43 percent. However, the fare increase, as well as high unemployment, service reductions and fewer senior citizens and students in the primary service area, translated into a 10 percent drop in ridership to 81.6 million passengers.

The MTC's property tax levy produced approximately 10 percent more revenue than in 1981. This resulted from an increase in the property tax base. A special session of the 1981 Minnesota Legislature increased the levy from 1.72 mills to 2.0 mills, effective with taxes certified in October 1982 and collected in 1983.

Despite the increase in local funding, the MTC will incur a deficit of nearly $2.7 million during the current biennium adversely affecting retained earnings. The MTC requires a high level of retained earnings at year end because of the uneven cash flow from federal, state and local payments, and the essential inventories of fuel and materials. About 77 percent of the property tax receipts arrive in July and December. Federal operating assistance is not received until two months after the end of the year.

The 1981 Legislature lowered the state's appropriation to encourage the Commission to reduce retained earnings through deficit spending. The MTC adopted a 1982 budget that anticipated a net loss of $6.87 million. It incurred a net loss of $3.01 million excluding depreciation, capital and debt service.

On the expense side, operating expenses for 1982 were $217,000 greater than in 1981. This modest increase can be attributed in part to the 5.4 percent or 1.6 million miles cut in service, which offset the effect of inflation on other expenses.

The 1981 legislative session established a program that allows some municipalities to replace MTC service with locally operated transit service. Communities that "opt-out" of the MTC service area could use 90 percent of the property tax that they would normally pay to the MTC to provide alternate service. The communities could also request state assistance to help fund this new service; such assistance would reduce state funding available to the MTC. At the end of 1982, two communities were considering "opt-out."

The MTC implemented a program, in response to other legislation, that requires the 0.2 mill property tax levy collected from secondary taxing districts be returned as local paratransit and rideshare programs. Minnesota Rideshare worked with these communities, helping them extend services despite shrinking budgets.

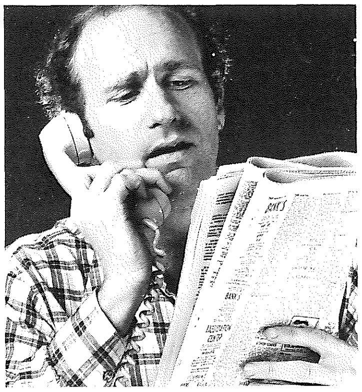
The Legislature also took one important step toward insuring the future of transit. Beginning in 1983, some revenue from sales tax on automobiles will be used for a transit assistance fund, which will be phased in during an eight-year period. Likewise, congress passed a gasoline tax at the end of the year that will, in part, be dedicated to public transportation capital improvements.

As a result of funding changes, the portion of operating costs covered by state grants declined from 13 percent in 1981 to 8 percent in 1982. Federal grants dropped from 12 percent to 10 percent. Property tax revenue, on the other hand, increased from 33 percent in 1981 to 36 percent in 1982. The operating revenue, which includes farebox, advertising and contract services, also increased from 40 percent of operating costs in 1981 to 43 percent in 1982.

The MTC's current ratio (the ratio of current assets to current liabilities) declined to 1.9 in 1982 from 2.1 in 1981. While cash and temporary cash investments increased by nearly $600,000, receivables declined by approximately $3.9 million. This reflected the reduced funding levels from state and federal sources as well as a delay in the state homestead credit in 1981. The retained earnings balance available for working capital declined by $2.5 million to a balance of $19.4 million at the end of the year.

CUTTING COSTS

Like most other government agencies and businesses, the MTC faced some unpleasant consequences of the 1982 recession - layoffs, cutbacks and service reductions. However tightening the belt has some fortunate, if unexpected, consequences. Priorities must be clearly defined, and efficiency



becomes critical. And, at least in the MTC's case, employees pull together to make the system more reliable.

A drop in state and federal operating funds forced the MTC to cut 1.6 million annual service miles. This reduction was accomplished, in part, by operating buses out of different garages and reducing the "deadhead" miles that buses travel between garages and service points. In addition, runs with very low ridership were eliminated.

Service cuts, in turn, meant layoffs for some part-time drivers and a decrease in full-time drivers through attrition. The Minnesota Legislature also ordered a reduction in "support staff," or employees other than drivers, mechanics and security personnel. Every effort was made to eliminate only those functions that have minimal effect on the quality of bus service. By the end of the year, there were 150 fewer MTC employees.

Despite these cutbacks and layoffs, MTC employees increased the system's reliability in 1982. During the year, the average number of missed trips and late pullouts decreased 23 percent from 1981 and 45.7 percent from 1980. Daily late pullouts averaged 4.4 in 1982, representing a 36.2 percent improvement over the 6.9 in 1981. Late pullouts, due to driver unavailability, dropped 35 percent in 1982. More than 35 pocket schedules were rewritten to improve on-time performance.

MTC employees considered a tight budget an opportunity to think creatively. The strongest example of this is a 17-year program developed for updating the MTC's fleet. Faced with older buses, the skyrocketing cost of new ones and limited federal funds for capital investments, the MTC designed a combined bus purchase-rehabilitate program. Rehabilitating a bus, that is, rebuilding it from a shell, costs less than half of buying a new one and adds up to eight years to its life.

The MTC also planned to save more than $1 million by removing the air conditioning in most regular route buses. Air conditioning requires extensive maintenance and takes mechanics away from more critical repair work. It can also be argued that Minnesota has very few days each summer when the windows and newly installed roof vents can't keep the buses cool.

The MTC saved money during 1982 because fuel prices declined somewhat instead of continuing to leap upward. Additional savings were realized by bidding out diesel fuel purchases and substituting jet fuel for diesel fuel during July and August.

Symbolic of the unity gradually being generated among employees, in response to a tighter budget, is the MTC Cost Savings Program. In July, the MTC began soliciting cost savings ideas from employees. Posters with a light-bulb-dollar sign appeared at every facility. Almost immediately ideas poured in, and many were implemented by the end of the year. They included everything from voluntary time off without pay for employees who have occasional slow work days, to repairing instead of purchasing $5,000 in bus brackets.

Other changes within the agency made the system more efficient, but are hard to quantify in dollar amounts. Some divisions produced the same amount of work with fewer employees; others cut corners so that their budgets would not have to increase with inflation.

One efficient move was the further refinement of the MTC's computerized scheduling system, which also received national attention during the year. In addition, the letters, documents and reports prepared by MTC Management Services Division were more efficiently produced on word processing equipment; the new technology and the typists' positive response increased productivity 26 percent.

The Risk Management Division participated in an outside consultant study of workers' compensation claims to help streamline and upgrade disability management. And the division designed a computer software system to automate financial claims and transactions, safety statistics and case files.

Also in 1982, the MTC initiated a records management system. This system was mandated by the state's Data Practices Act. This not only means that the entire agency will have a clear, efficient record inventory but also that mountains of unnecessary papers can be destroyed. A lot of storage room will be saved when permanent records are neatly filed on microfilm.

Another change will enable the MTC to more accurately count passengers. In June, drivers began using a carefully designed trip sheet, which identifies peak-hour and social fare riders.

Budget cuts will never be something that an agency looks forward to. However, the MTC looks forward to maintaining the unified spirit employees gained during this tight year. The efficiency gained has helped the bus system become more reliable.


John

The word-of-the-year for 1982 was "productivity." Managers across the country racked their brains to develop ways to get more service for each hour worked. The greater employees' productivity, the more service received for dollars spent. However, what is missing from this economic analysis is: motivated employees are happier and more enthusiastic. They not only save their employer money, they make a workplace vibrant.

In 1982, the MTC gained momentum from the energy of its employees.

Efforts to generate this energy began with an employee attitude study completed in 1981. Utilizing interviews and questionnaires, consultants provided an analysis of what motivates and fails to motivate MTC employees. The consultant recommended many incentive and participative management programs.

The first, and most dramatic changes, occurred in the Maintenance Division. Early in the year, three quality circles were initiated in the Overhaul Base. Volunteer groups of six to ten workers with similar job responsibilities meet regularly to attack shared problems in a formal process. This allows employees participation in decisions that affect them. By the end of the year, three other quality circles were established at the American Center Building offices.

Maintenance employees also attended several in-house and vocational school training programs to improve skills such as welding and troubleshooting. A spirited event called "Wrench-O-Rama" gave them a chance to test those skills in a friendly competition. Patterned after the drivers' Roadeo, "Wrench-O-Rama" included a written test, troubleshooting and towing competition. The three top teams were honored at the annual awards program.

This energy in the Maintenance Division resulted in improved bus reliability for the MTC. Miles per maintenance failure, or average miles a bus travels before it needs on-street service, increased 9.7 percent in 1982. And this figure includes the unusually severe winter storms in January 1982. In addition, mechanics spent more time working on buses - average man-hours spent per service mile increased 5.1 percent.

Over the past few years, the MTC has become concerned about increased employee absenteeism. Two incentive programs successfully stimulated employees to come to work each day. The MTC Absenteeism program, initiated in January, established clear expectations for attendance and progressive discipline for prolonged absence. The MTC Perfect Attendance program, which began in July, rewards employees who achieve perfect attendance over time.

These two programs certainly contributed to reduced unscheduled absenteeism among employees. Driver absence because of sickness, workers' compensation, lateness and no shows showed a 28 percent improvement during 1982.

The MTC also initiated programs to energize employees with continued fine records. Drivers were motivated by the MTC's Master and Senior Driver programs. Each year that drivers meet safety, absenteeism and performance standards, they receive outstanding driver status. Then, after five years, they receive a Master Driving Award; after ten years, a Senior Driving Award. Both awards include paid hours off, cash, a badge, honor roll listing and an annual banquet.

Drivers and the public they serve benefited from the Jefferson Driving School in 1982. Drivers voluntarily attended the two-day retraining program, which helps them improve reaction time and realize their own limitations. This program, coupled with increased safety promotion by the MTC Safety Section, resulted in 9 percent fewer accidents in 1982. The average number of miles between accidents improved 3.2 percent.

This self-improvement spirit also overtook the Transit Information Center in 1982. A

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new incentive program rewards the most improved employee with a representative-of-the-month award. Every three months, the most improved team of representatives also is awarded a trophy and a cake and coffee party.

MTC managers improved their management skills by attending several classes. The consulting firm that surveyed the employee attitudes taught 20-hour sessions on such skills as communications, leadership and problem solving to first-line, middle and top managers.

At the same time that these new incentive programs were beginning, a new management structure was established to support them. In January, a major staff reorganization resulted in 10 divisions and a combined general manager-chief administrator position. The changes were planned to eliminate duplication and speed up decision making.

Summing up the MTC's new spirit was the 1982 advertising campaign, "Nice Going." The human interest theme of this campaign was projected in six large newspaper ads and bus card advertising. The experiences of riders and drivers were used to talk about the MTC in a personal way. One ad showed a driver who received a birthday cake from his passengers. "Lost somewhere in the stories about MTC fare increases and service cutbacks are the stories about employees like Phil. Employees who are doing a better job than ever before . . ."

INVESTING IN THE FUTURE

The MTC made each program more efficient and each person more productive, but these improvements are only good for the system's current vitality. To keep the MTC energized, there must be a big investment in the future.

The MTC's biggest capital investment in the future is the new Fred T. Heywood Operating and Office Facility, on which construction began November 15. The facility replaces the aging Northside Garage in Minneapolis. The facility is named after retired Service Planning and Scheduling Manager Fred Heywood who implemented the nation's first computerized scheduling system at the MTC and worked 46 years in Twin Cities transit.

Because bids for the new operating facility came in much lower than expected, the MTC was able also to finance a five-story office building. This compact building will replace the now-leased American Center Building offices in downtown St. Paul and the antiquated Nicollet Garage offices in Minneapolis. About $100,000 in rental costs will be saved annually. More importantly, the new combined offices will increase communications between divisions and create a unified spirit among employees. The new office building and operating facility will be completed in mid-1984.

The MTC made another big capital investment in the future by renovating Snelling Garage, which was completed in 1982. The garage contains bus washers, improved lighting and ventilation, and a repainted brick surface. An entrance tower with an elevator makes the garage accessible to wheelchairs. New training offices and classrooms will improve instruction and orientation of new employees.

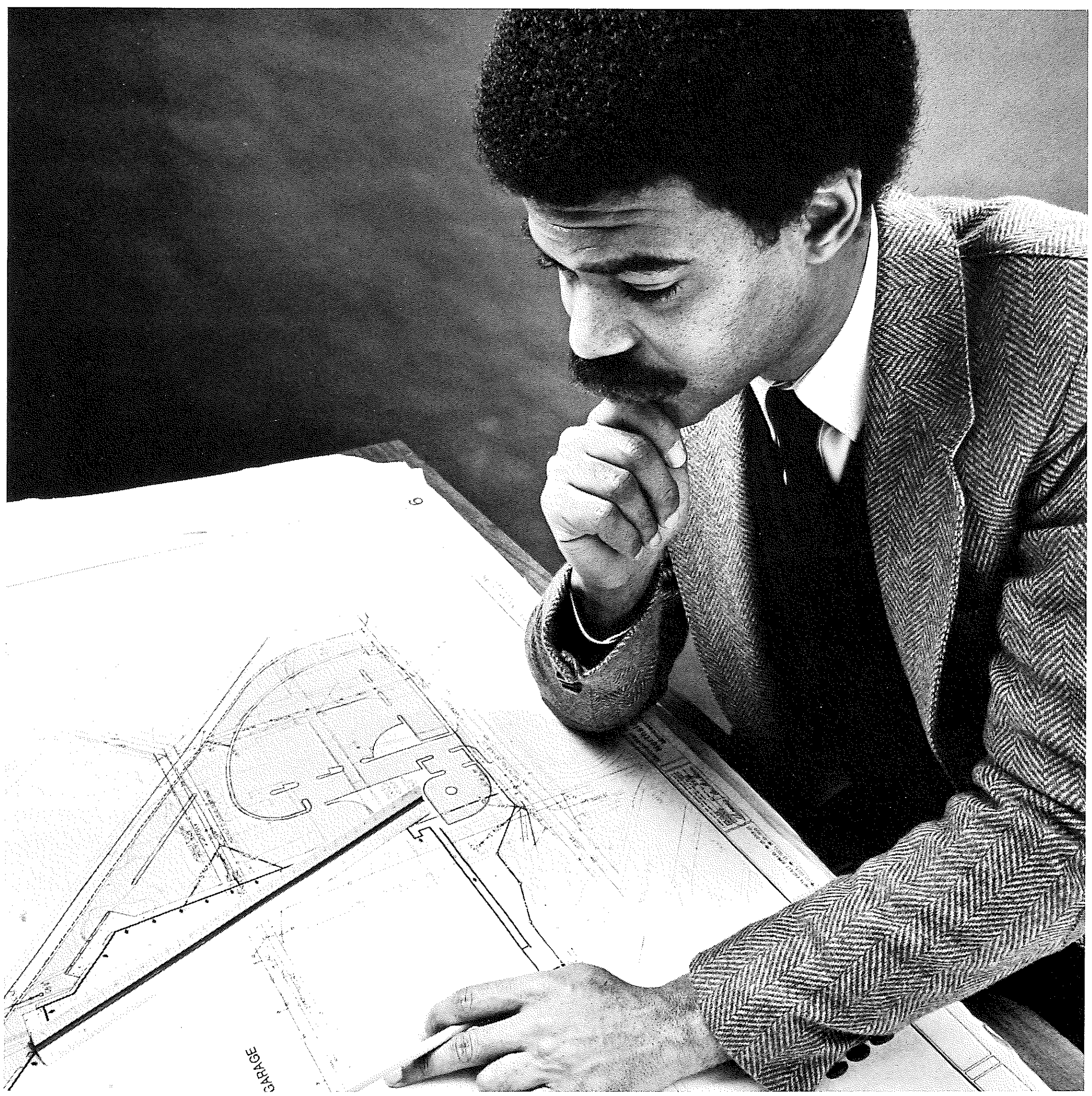
The MTC also worked with the City of Minneapolis in 1982 to make a smoother, more functional downtown. The new "layover" facility, or parking place for buses between runs, will free up many downtown side streets. To be completed in 1983, the layover facility will also be a safe, comfortable place for drivers to have their 10-minute breaks between runs.

The MTC will receive 25 new articulated buses in 1983, 37 in 1984. These 60-foot, 67-seat buses help unclog busy runs, besides being comfortable and well made. Four new buses for Project Mobility arrived in 1983, and 14 more are scheduled for delivery later in the year. The new buses, which are specially equipped for all handicapped people, are larger and more durable than the existing Project Mobility buses.

Still another big investment in the future is on the drawing boards. The Nicollet Garage in Minneapolis is the last old facility left from streetcar days. Renovation or replacement of this facility will complete the MTC's brand new look.

The MTC is also looking ahead to the long-term future. A light rail study was initiated in 1982, in cooperation with several other local, regional and state agencies. The study will specifically address the prospect of a light rail system on University Avenue or southwest from downtown Minneapolis. The study is funded by a U. S. Department of Transportation grant and will contain an environmental impact statement.

Minnesota Rideshare also made an investment in its future by helping to organize the Metropolitan Ridesharing Board. The Board will provide policy direction, develop and monitor work plans for ridesharing in the Twin Cities. This is the first step in developing a private-public partnership of ridesharing service.



During 1982, the MTC greatly improved its ability to predict financial situations and capabilities with the purchase of a microcomputer. Financial planners can prepare scenarios based on revenue and expense assumptions, and the computer quickly produces specific figures. Such calculations were previously done after days of work.

However, these exciting prospects for the MTC's future depend on continued adequate funding. Federal operating assistance, which was $10.7 million in 1981, declined to $8.5 million in 1982 and 1983. State operating grants, which were $11.6 million in 1981, declined to $7.7 million in 1982. The MTC does anticipate a slight increase in state funding to $8.4 million in 1983 and $8.9 million in 1984.

The goal of the Metropolitan Transit Commission is to provide the Twin Cities with safe, reliable and comfortable transportation. A system that works for cities that work. To keep that promise alive will require adequate funding. Without it, this basic public service will surely decline.

BALANCE SHEETS AT DECEMBER 31, 1982 AND 1981

ASSETS	1982	1981
CURRENT ASSETS:		
Cash and short-term investments	$ 14,960,800	$ 14,373,500
Accounts receivable	633,700	675,200
Property tax receivable	2,149,400	1,741,700
Due from Federal government	8,753,400	10,809,100
Due from State of Minnesota:		
Grants	3,708,500	3,414,400
Homestead credits		2,524,900
Accrued interest receivable	69,800	70,000
Material and supplies	2,962,500	2,904,900
Prepaid expenses	80,000	112,200
Total	33,318,100	36,625,900
RESTRICTED ASSETS:		
Debt Service:		
Cash and short-term investments	3,432,100	2,814,800
Receivables	204,600	506,800
Capital Acquisitions:		
Cash and short-term investments	11,423,400	4,440,800
Receivables	1,375,400	893,600
Total	16,435,500	8,656,000
PROPERTY, PLANT AND EQUIPMENT - Net	67,018,900	64,003,200
TOTAL ASSETS	$116,772,500	$109,285,100

LIABILITIES AND EQUITY	1982	1981
CURRENT LIABILITIES:		
Accounts payable	$ 2,800,200	$ 1,558,800
Accrued payroll liabilities	4,187,000	4,193,700
Accrued interest payable	337,300	239,800
Accrued injury and damage claims	7,967,600	8,968,800
Other liabilities	424,100	438,000
Current portion of long-term debt	1,850,000	2,150,000
Total	17,566,200	17,549,100
LONG-TERM DEBT	18,110,000	11,050,000
EQUITY:		
Contributed capital	48,710,300	46,580,900
Retained earnings:		
Reserved for debt service	1,449,400	931,800
Invested in or committed to property, plant and equipment	11,550,200	11,280,900
Available for working capital	19,386,400	21,892,400
Total	81,096,300	80,686,000
TOTAL LIABILITIES AND EQUITY	$116,772,500	$109,285,100

See notes to financial statements.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

	1982	1981
OPERATING REVENUES:		
Passenger fares	$32,407,700	$29,515,000
State special fare assistance	4,942,600	4,982,100
Contract fares	1,676,300	1,652,300
Charter	148,000	229,900
Advertising	484,700	460,100
Total	39,659,300	36,839,400
OPERATING EXPENSES:		
Labor	49,187,100	45,615,800
Fringe benefits	19,114,300	17,390,500
Workers compensation	2,935,500	5,825,800
Material and supplies	14,797,200	16,149,300
Professional and technical services	1,719,700	2,004,200
Claims and insurance	1,098,800	1,389,000
Utilities	1,647,300	1,385,800
Leases and rentals	850,100	1,060,000
Purchased transportation services	195,200	188,200
Advertising and promotion	305,300	665,900
Miscellaneous	353,900	312,800
Total	92,204,400	91,987,300
OPERATING LOSS BEFORE DEPRECIATION	(52,545,100)	(55,147,900)
DEPRECIATION	6,890,800	6,824,100
OPERATING LOSS	(59,435,900)	(61,972,000)
NON-OPERATING REVENUES (EXPENSES):		
Property taxes	33,585,400	30,643,700
Federal grants	9,074,700	11,199,500
State grants	7,708,100	11,554,400
Interest income	2,698,400	3,650,300
Interest expense	(726,600)	(713,100)
Other	139,800	80,700
Total	52,479,800	56,415,500
NET INCOME (LOSS)	$(6,956,100)	$(5,556,500)

See notes to financial statements.

STATEMENTS OF RETAINED EARNINGS AND CONTRIBUTED CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

	RETAINED EARNINGS	CONTRIBUTED CAPITAL
BALANCE, DECEMBER 31, 1980	$34,884,700	$46,791,400
NET (LOSS)	(5,556,500)	
CAPITAL GRANTS		4,566,400
DEPRECIATION ON CONTRIBUTED IMPROVEMENTS	4,776,900	(4,776,900)
BALANCE, DECEMBER 31, 1981	34,105,100	46,580,900
NET (LOSS)	(6,956,100)	
CAPITAL GRANTS		7,366,400
DEPRECIATION ON CONTRIBUTED IMPROVEMENTS	5,237,000	(5,237,000)
BALANCE, DECEMBER 31, 1982	$32,386,000	$48,710,300

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

	1982	1981
CASH PROVIDED BY (USED FOR) OPERATIONS:		
Net (loss)	$(6,956,100)	$(5,556,500)
Non-cash item - depreciation	6,890,800	6,824,100
Total provided (used) by operations	(65,300)	1,267,600
Changes in:		
Receivables	3,920,500	(1,333,500)
Material and supplies	(57,600)	(921,100)
Other assets	32,200	(46,400)
Accounts payable	1,241,400	(1,932,900)
Other accrued liabilities	(924,300)	2,262,400
Net cash provided (used) by operations	4,146,900	(703,900)
FINANCING:		
Sale of general obligation certificates of indebtedness	8,910,000	
Reduction of long-term debt	(2,150,000)	(2,400,000)
Capital contributions	7,366,400	4,566,400
Restricted assets	(7,779,500)	2,274,200
Net cash provided by financing	6,346,900	4,440,600
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	(9,906,500)	(6,349,000)
INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	587,300	(2,612,300)
CASH AND SHORT-TERM INVESTMENTS:		
Beginning of Year	14,373,500	16,985,800
End of Year	$14,960,800	$14,373,500

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

1. PURPOSE AND NATURE OF ORGANIZATION

The Metropolitan Transit Commission (MTC) was established in 1967. The Metropolitan Transit Commission has the responsibility to develop, maintain and operate a public mass transit transportation system for the benefit of the inhabitants of the Metropolitan Transit Taxing District. The Metropolitan Transit Taxing District includes substantial portions of Anoka, Carver, Dakota, Hennepin, Scott and Washington counties and all of Ramsey county.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting.

CAPITAL GRANTS

MTC records the receivable for capital grants as contributed capital when the related grant expenditures are incurred. The capital grants are not recorded as revenue to the MTC as they are contributions to equity. Assets acquired with capital grants (contributed capital) are included in property, plant and equipment. Depreciation on assets acquired with contributed capital is included as an expense in the statements of income and then transferred as a reduction of contributed capital.

REVENUE RECOGNITION

Operating assistance grants available under Section 5 of the Urban Mass Transportation Act of 1964, as amended, are recorded as non-operating revenue in the year in which the grant is applicable and the related reimbursable expenditure is incurred (Note 3).

Operating assistance grants from the State of Minnesota are recorded as non-operating revenue in the applicable period when earned.

MTC is authorized to levy limited general purpose ad valorem taxes for operation of the regular route bus transit system and unlimited ad valorem taxes specifically for the retirement of principal and interest on outstanding indebtedness. Property taxes are recorded as revenue in the year in which the taxes constitute a lien on the property.

STATE SPECIAL FARE ASSISTANCE

MTC receives special fare assistance from the State of Minnesota for the transportation of handicapped, senior citizen and student passengers. Such assistance is classified as operating revenue as it is intended to provide for differences between full adult fares and the reduced special fares.

PROPERTY

Property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives as follows: buildings, thirty-five to forty-five years; buses, ten years; other equipment, four to fourteen years. Expenditures for maintenance and repairs are charged to expense as incurred.

CASH AND SHORT-TERM INVESTMENTS

Unrestricted and restricted cash is invested to the extent available in certificates of deposit, repurchase agreements and other short-term securities. Investments are stated at cost which approximates market value.

MATERIAL AND SUPPLIES

Material and supplies are stated at cost utilizing the weighted average method.

VACATION AND SICK PAY

Vacation pay is charged to expense when earned by the employee. Sick pay is expensed when paid because all sick leave expires upon termination of employment.

RECLASSIFICATION OF PRIOR YEAR AMOUNTS

Amounts included in the breakout of retained earnings are classified differently in 1982 than they were, as previously reported, in 1981. In order to achieve comparability, the 1981 retained earnings restricted for capital acquisitions were reclassified into retained earnings invested in or committed to property, plant, and equipment.

3. SECTION 5 OPERATING ASSISTANCE GRANTS

Under Section 5 of the Urban Mass Transportation Act of 1964, as amended, operating assistance funds are made available to the Commission. Funds are apportioned on an annual basis and are available for a period of two years following the close of the fiscal year for which they are apportioned. Any unobligated funds at the end of such period revert to the Federal government. Each fiscal year the Commission may file an application for a grant, from the apportionment, based upon a defined grant formula basis.

Federal Section 5 grant revenues were $8,529,000 and $10,661,200 for the years ended December 31, 1982 and 1981, respectively.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	December 31, 1982	December 31, 1981
Land and buildings	$40,197,300	$39,396,600
Buses	55,956,700	55,830,200
Other equipment, furniture and fixtures	9,644,100	8,740,500
Capital projects in progress	11,334,200	3,533,800
TOTAL	117,132,300	107,501,100
Accumulated depreciation	(50,113,400)	(43,497,900)
Net	$67,018,900	$64,003,200

Capital projects in progress at December 31, 1982 of $11,334,200 are primarily for the construction of the Fred T. Heywood Operating & Office Facility and the renovation of the Snelling Garage. The estimated total cost of construction and equipment for these facilities was $27,276,700. At December 31, 1982, the Commission had committed to approximately $10,086,400 of construction and approximately $16,624,900 for the purchase of 62 articulated buses.

5. LONG-TERM DEBT

Long-term debt outstanding as of December 31, 1982 and 1981 was as follows:

General Obligation Certificates of Indebtedness	Final Maturity Date	Net Interest Rate	December 31, 1982	December 31, 1981
October 1, 1971	2-1-85	4.28%	$800,000	$1,150,000
October 1, 1973	2-1-83	4.35%		300,000
March 1, 1976	12-1-86	4.77%	1,200,000	1,800,000
September 1, 1979	2-1-98	5.58%	7,200,000	7,800,000
November 1, 1982	2-1-95	8.49%	8,910,000	
			$18,110,000	$11,050,000

All certificates of indebtedness mature serially. The 1971 certificates may be redeemed, before the due dates, at redemption prices ranging from 101.5% to par. The 1982 certificates may be prepaid beginning in 1991. All other certificates cannot be redeemed prior to maturity.

All certificates are payable, both as to principal and interest, from the proceeds of a tax levied by the Commission on all taxable property within the Metropolitan Transit Taxing District.

Long-term debt maturities will be $1,850,000, $1,700,000, $1,700,000, $1,400,000 and $1,100,000 for the years ending December 31, 1983 through 1987, respectively.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

6. PENSION PLANS

All full-time employees are required by State law to belong to the Public Employees Retirement Association or the Minnesota State Retirement System. MTC's portion of the unfunded liability in either plan is not determinable. Pension expense for the years ended December 31, 1982 and 1981, was $4,986,700 and $4,984,400, respectively.

7. RETAINED EARNINGS

Retained earnings are segregated between amounts reserved for debt service, amounts invested in or committed to property, plant and equipment, and amounts available for working capital.

Cash flow of the MTC is uneven during the year because the majority of general property taxes are received during the last six months of the year and time lags occur in the receipt of Federal and State grants. In order to provide for sufficient operating cash until taxes and grants are received, the MTC must have working capital to provide for expenditures which must be made prior to the receipt of revenues.

8. LAND RIGHTS

MTC has an agreement with the Metropolitan Airports Commission for the rights to land on which the South garage is located. The land rights run for forty years with an annual payment of $54,900. MTC has deposited State and local government securities sufficient to make the annual payments over the term of the agreement. MTC recorded the deposit as land rights which are armortized on the straight-line basis over the term of the agreement.

9. CONTINGENT LIABILITY FEDERAL AND STATE GRANTS

Expenditures financed by grants received from the Urban Mass Transit Administration (UMTA) are subject to audit by UMTA, and grants received from the State of Minnesota are subject to audit by state auditors to determine if expenditures comply with conditions of the grants. The Commission believes that no material liability will arise from any such audits, except as discussed in note 10. The grantors retain their interest in assets acquired with grant funds should they be disposed of prior to the end of their economic lives or not be used for mass transit.

10. SUBSEQUENT EVENTS

In November 1982, the Commission reached an agreement in settlement of damages from AM General Corporation for 338 faulty buses acquired in previous years. Under the terms of the settlement the Commission is to receive $100,000 in cash, 48 new bus engines valued at $768,000 and one bus worth about $100,000. Because final resolution of this matter did not occur until 1983, the settlement was not included in these financial statements.

During 1983 the Commission received an audit report from the Minnesota Department of Transportation citing differences in the calculation of State special fare assistance. Initial estimates indicate that overpayments of approximately $900,000 may have been made for five prior years through 1981. No adjustments to the financial statements have been made pending final resolution of this matter.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Metropolitan Transit Commission:

We have examined the balance sheets of the Metropolitan Transit Commission as of December 31, 1982 and 1981 and the related statements of income, retained earnings and contributed capital, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Metropolitan Transit Commission at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principals applied on a consistent basis.

Deloitte Haskins & Sells

Saint Paul, Minnesota
April 13, 1983

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Chairman

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South Central Suburban Hennepin County

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