

**EAST WISCONSIN COUNTIES  
RAILROAD CONSORTIUM**

**FINANCIAL STATEMENTS  
WITH AUDITOR'S REPORT**

**For The Year Ended December 31, 2008**

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**TABLE OF CONTENTS**  
**East Wisconsin Counties Railroad Consortium**

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	Page
INDEPENDENT AUDITOR'S REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	2
BASIC FINANCIAL STATEMENTS:	
<b>Government-wide Financial Statements:</b>	
Statement of Net Assets.....	5
Statement of Activities .....	6
<b>Fund Financial Statements:</b>	
Balance Sheet – Governmental Funds.....	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	8
NOTES TO FINANCIAL STATEMENTS.....	9-12
SUPPLEMENTARY INFORMATION	
Special Revenue Fund.....	14



Certified Public Accountants

*Quality service through our commitment to clients and staff*

Millard W. Johnson ▲ James L. Block ▲ Alan L. Brey ▲ Joseph G. Mohlmann ▲ Kevin P. Krysinski ▲ Janice L. Froelich

## INDEPENDENT AUDITOR'S REPORT

March 11, 2009

East Wisconsin Counties Railroad Consortium  
Juneau, Wisconsin

We have audited the accompanying financial statements of the governmental activities and each major fund of the East Wisconsin Counties Railroad Consortium as of and for the year ended December 31, 2008, which collectively comprise the Consortium's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Consortium and its management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the East Wisconsin Counties Railroad Consortium as of December 31, 2008 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 4, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Johnson Block & Company, Inc.  
Certified Public Accountants  
Madison, Wisconsin

**East Wisconsin Counties Railroad Consortium**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2008**

**Purpose of the Consortium**

The Consortium was created for the purpose of facilitating the continuance of rail service on the Northern Division of the Milwaukee Road and the preservation of the facilities for the continuing of such service. In carrying out these purposes the Consortium has acquired this branch line and leased the facilities to a railroad operator.

In cooperation with the State of Wisconsin and the railroad operating company, the Consortium has funded the rehabilitation of the rail lines.

**Financial highlights**

On an accrual basis of accounting, net assets of the Consortium increased by \$133,588 in 2008. Revenues were \$199,195 in 2008, as compared to 2007 revenues of \$141,966. Revenues were higher in 2008 because of increases in county contributions and in rent.

On the modified accrual basis of accounting, revenues were less than expenditures by \$102,863 in 2008. This was due to the spending of prior year county contributions on rail projects in 2008.

**Government-Wide and Governmental Fund  
Financial Statements**

Under generally accepted accounting principles, the Consortium presents two sets of financial statements, one on the accrual basis of accounting and the other on the modified accrual basis of accounting. The accrual basis financial statements or the Government-Wide financial statements consist of the statement of net assets and the statement of activities and are presented on an aggregated basis. The modified accrual basis financial statements or the Governmental Fund financial statements consist of the balance sheet and the statement of revenues, expenditures and fund balance and are presented on a fund accounting basis. The Governmental Fund financial statements do not include any long-term assets, such as fixed assets, and long-term liabilities, such as long-term debt.

## Comparison of Revenues and Expenses

Revenues for fiscal 2008 were higher than those of 2007. County contributions were \$180,000 in 2008 and \$130,000 in 2007. Rent increased from \$3,600 to \$15,250.

Administrative expenses decreased in 2008 from \$18,116 to \$9,328. They were higher in 2007 because of the renegotiating of the operating agreements.

Railroad rehabilitation expenditures were \$292,730 in 2008 as compared to \$73,747 in 2007.

## Comparison of Assets, Liabilities and Net Assets

### Current Assets and Liabilities

Cash and investments decreased by \$140,000 because all county contributions were expended on rehabilitation projects by the year end.

Accounts payable decreased by about \$57,000. Accounts payable at the end of 2008 consisted of legal costs of \$6,427.

The Consortium returned \$13,331 to the Wisconsin River Rail Transit Commission which was left from the 2005 rehabilitation project.

### Non-Current Assets and Liabilities

An analysis of capital assets for the 2008 year is as follows:

	January 1, 2008	<u>Additions</u>	<u>Reductions</u>	Dec 31 2008
Rail improve- ments, net	\$ 624,362	\$ 263,656	\$ 27,205	\$ 860,813

The Consortium had no long-term debt.

The additions include rail rehabilitation for the Hartford to Horicon Project. Expenditures on the Wheeler Pit project (\$29,074) were expensed because the improvements belong to the Wisconsin River Rail Transit Commission.

## Changes in Fund Balances

	<u>Years Ended December 31,</u>		
	<u>2007</u>	<u>2008</u>	<u>Decrease</u>
Fund Balances	<u>\$ 163,547</u>	<u>\$ 60,684</u>	<u>\$ 102,863</u>

The decrease in the overall fund balances was due primarily to the spending of 2007 county contributions. The Consortium carried over \$83,656 from the counties in 2007 and spent it in 2008 on rail projects. The Consortium also expended \$29,074 on the project managed by the Wisconsin River Rail Transit Commission from prior year contributions. The general fund balance increased by \$9,867 in 2008.

**EAST WISCONSIN COUNTIES RAILROAD CONSORTIUM**  
**Statement of Net Assets**  
**December 31, 2008**

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets:	
Cash	\$ 1,000
Investments	66,112
Total current assets	<u>67,112</u>
Noncurrent assets:	
Capital assets	1,030,504
Less: Accumulated Depreciation	<u>(169,691)</u>
Total noncurrent assets	<u>860,813</u>
Total Assets	<u><u>\$ 927,925</u></u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 6,428
Total current liabilities	<u>6,428</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	860,813
Unrestricted	<u>60,684</u>
Total Net Assets	<u>921,497</u>
Total Liabilities and Net Assets	<u><u>\$ 927,925</u></u>

The accompanying notes are an integral part of this statement.

**EAST WISCONSIN COUNTIES RAILROAD CONSORTIUM**  
**Statement of Activities**  
**For the Year Ended December 31, 2008**

	<u>Governmental Activities</u>
<u>Operating Revenues</u>	
County contributions	\$ 180,000
Rent	15,250
Total Revenues	195,250
 <u>Operating Expenses</u>	
Contributions to Other Governments	29,074
Administration	9,328
Depreciation	27,205
Total Expenses	65,607
Operating income(loss)	129,643
 <u>Nonoperating Income</u>	
Interest Revenue	3,945
Total Nonoperating Income(Expense)	3,945
Change in Net Assets	133,588
Net Assets-Beginning of year(restated)	787,909
Net Assets-End of year	\$ 921,497

The accompanying notes are an integral part of this statement.



**EAST WISCONSIN COUNTIES RAILROAD CONSORTIUM**

**Balance Sheet**

**Governmental Funds**

**December 31, 2008**

	General Fund	Special Revenue	Totals
<b><u>Assets:</u></b>			
Cash in the Bank	\$ 1,000	\$ -	\$ 1,000
Investments	\$ 43,292	\$ 22,820	66,112
Total Assets	<u>\$ 44,292</u>	<u>\$ 22,820</u>	<u>\$ 67,112</u>
<b><u>Liabilities:</u></b>			
Accounts Payable	\$ 6,428	\$ -	\$ 6,428
Total Liabilities	<u>6,428</u>	<u>-</u>	<u>6,428</u>
<b><u>Equity:</u></b>			
Fund Balance:			
Unreserved:			
Designated	-	22,820	22,820
Undesignated	37,864	-	37,864
Total Fund Equity	<u>37,864</u>	<u>22,820</u>	<u>60,684</u>
Total Liabilities and Fund Equity	<u>\$ 44,292</u>	<u>\$ 22,820</u>	<u>\$ 67,112</u>

**Reconciliation of the Governmental Funds Balance Sheet  
with the Statement of Net Assets**

Total fund balances - governmental funds:		\$ 60,684
Capital assets used in governmental activities are not financial resources and are not reported as assets in governmental funds:		
Capital assets	1,030,504	
Accumulated depreciation	<u>(169,691)</u>	860,813
Total net assets - governmental activities		<u>\$ 921,497</u>

The accompanying notes are an integral part of this statement.

**EAST WISCONSIN COUNTIES RAILROAD CONSORTIUM**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended December 31, 2008**

	General Fund	Special Revenue	Totals
<b><u>Revenues:</u></b>			
County contributions	\$ -	\$ 180,000	\$ 180,000
Rent	15,250	-	15,250
Interest from Investments	3,945	-	3,945
	19,195	180,000	199,195
<b><u>Expenditures:</u></b>			
Railroad Rehabilitation	-	292,730	292,730
Legal Charges	6,428	-	6,428
Accounting Charges	2,900	-	2,900
	9,328	292,730	302,058
Excess of Revenues Over (Under) Expenditures	9,867	(112,730)	(102,863)
Fund Balance beginning of year	27,997	135,550	163,547
Fund Balance end of year	\$ 37,864	\$ 22,820	\$ 60,684

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes  
in Fund Balances with the Statement of Activities**

Net change in fund balances-total governmental funds \$ (102,863)

The acquisition of capital assets is reported in the governmental funds as expenditures. However, those costs are capitalized on the statement of net assets and depreciated over their estimated useful lives in the statement of activities.

Capital outlay reported in governmental fund statements	263,656	
Depreciation expenses reported in the statement of activities	(27,205)	
		236,451
Change in net assets-governmental activities		\$ 133,588

The accompanying notes are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**  
**East Wisconsin Counties Railroad Consortium**  
**December 31, 2008**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Consortium prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**A. FINANCIAL REPORTING ENTITY**

The Consortium was organized in 1980 to acquire and rehabilitate rail lines. It was organized by six counties under State Statute 66.30 and now includes eight counties. The member counties are: Columbia, Dodge, Fond du Lac, Green Lake, Ozaukee, Sheboygan, Washington, and Winnebago. The Consortium is governed by two representatives from each member county. It is a joint venture of the member counties and is not a component unit of any county.

The Consortium is considered to be a "stand-alone government" as defined by GASB. The financial reporting entity of the Consortium is defined by GASB to consist of (a) the stand-alone government, (b) organizations for which the stand-alone government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the stand-alone government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The basic financial statements of the Consortium consist solely of the stand-alone government. No other organizations were identified for inclusion in the financial reporting entity of the Consortium.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the reporting government as a whole. They include all activities of the reporting entity.

**Fund Financial Statements**

Separate financial statements are provided for the governmental funds. The Consortium reports the following major governmental funds:

**General Fund** - The general fund is used to account for all financial resources which are not required to be accounted for in another fund.

**Special Revenue Fund** – The special revenue fund is used to segregate railroad infrastructure improvements funds from the general consortium funds.

**NOTES TO FINANCIAL STATEMENTS**  
**East Wisconsin Counties Railroad Consortium**  
**December 31, 2008**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

**Government-Wide Financial Statements**

The government-wide statement of net assets and the statement of activities 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. Grants and similar items are recognized as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

**Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

**D. BUDGETARY ACCOUNTING**

The Consortium does not prepare an annual operating budget. The Consortium controls expenditures through special revenue project budgets which do not coincide with its fiscal year.

**E. CASH AND INVESTMENTS**

The Consortium is required to invest its funds in accordance with Section 66.04(2) of the Wisconsin Statutes. Cash is on deposit at a local bank. Investments are held in the custody of the Dodge County Treasurer. Investments are stated at fair market value.

**F. ACCOUNTS RECEIVABLE**

Accounts receivable are recorded at the gross amount. No loss for uncollectible accounts is expected.

**G. CAPITAL ASSETS**

**Government-wide Statements**

Capital assets, which consist of rail improvements, are reported in the government-wide financial statements. Capital assets are recorded at cost. Only the Consortium's share of rail rehabilitation costs are reported in the financial statements. Equity in the improvements is shared among the Consortium, the state and the railroad company in proportion to each entity's contribution to the costs. Depreciation of the rail improvements is being recorded over estimated service lives of 30 years using the straight-line method.

**Fund Financial Statements**

In the fund financial statements, capital assets are reported as expenditures of the governmental fund upon acquisition.

**NOTES TO FINANCIAL STATEMENTS**  
**East Wisconsin Counties Railroad Consortium**  
**December 31, 2008**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**H. NET ASSETS**

**Government-Wide Statements**

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – 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.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

**Fund Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled “designated”. The balance of unreserved fund balance is labeled “undesignated”, which indicates it is available for appropriation.

**I. USE OF ESTIMATES**

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

**2. CASH AND INVESTMENTS**

The Consortium deposits excess funds with the Dodge County Treasurer, who further deposits them in an interest bearing account with AIM Mutual Funds. This fund’s portfolio is in US Treasury bills and US Government Agency Funds. The account is completely liquid with the ability to withdraw funds upon request. Earned interest is reinvested and held for Consortium purposes, along with the principal. Designation of earned interest revenues is not established by the Consortium. Investments in the mutual funds are not insured.

The consortium does not have formal policies regarding custodial credit risk, credit risk or interest rate risk.

**NOTES TO FINANCIAL STATEMENTS**  
**East Wisconsin Counties Railroad Consortium**  
**December 31, 2008**

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**3. ACCOUNTS RECEIVABLE/RENT REVENUES**

The operating agreement between the Consortium and the railroad operator provides for the payment of rent for the use of the land corridor and rail facilities. The annual rental rate is \$100 per mile of track operated. Rental income in 2008 was \$15,250. Rent is to be paid to the Consortium quarterly.

**4. CAPITAL ASSETS**

A summary of fixed assets at December 31, 2008 follows:

	Balance 01/01/08	Additions	Retirements	Balance 12/31/08
Rail Improvements	\$ 766,848	\$ 263,656	\$ -	\$ 1,030,504
Accumulated Depreciation	142,486	27,205	-	169,491
<b>Totals</b>	<b>\$ 624,362</b>	<b>\$ 236,451</b>	<b>\$ 0</b>	<b>\$ 860,813</b>

**5. FUND BALANCES**

The fund balance in the special revenue fund is the total of unexpended county contributions from prior years' projects. The unexpended amounts from each year were as follows:

1998-2001	\$ 1,742
2004	<u>21,078</u>
	<u>\$ 22,820</u>

**6. RISK MANAGEMENT**

The Consortium is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and error and omissions. Risks are covered through the operating agreement with the railroad operating company. The operating company has purchased commercial insurance to indemnify the Consortium. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Consortium.

**SUPPLEMENTARY INFORMATION**

**EAST WISCONSIN COUNTIES RAILROAD CONSORTIUM  
 COMBINING BALANCE SHEET - SPECIAL REVENUE FUND BY PROJECT YEAR  
 December 31, 2008**

	1998 - 2001	2004	2005 - 2007	2008	Totals
<b><u>Assets:</u></b>					
Cash	\$ 1,742	\$ 21,078	\$ -	\$ -	\$ 22,820
Total Assets	<u>\$ 1,742</u>	<u>\$ 21,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,820</u>
<b><u>Liabilities:</u></b>					
	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances	<u>1,742</u>	<u>21,078</u>	<u>-</u>	<u>-</u>	<u>22,820</u>
Total Liabilities and Fund Balance	<u>\$ 1,742</u>	<u>\$ 21,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,820</u>



**EAST WISCONSIN COUNTIES RAILROAD CONSORTIUM  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - SPECIAL REVENUE FUND BY PROJECT YEAR  
 Year Ended December 31, 2008**

	1998- 2005	2006	2007	2008	Totals
<b><u>Revenues:</u></b>					
Counties and Cities	\$ -	\$ -	\$ -	\$ 180,000	\$ 180,000
Total Revenues	-	-	-	180,000	180,000
<b><u>Expenditures:</u></b>					
Project Costs	-	29,074	83,656	180,000	292,730
Total Expenditures	-	29,074	83,656	180,000	292,730
Excess of Revenues Over (Under) Expenditures	-	(29,074)	(83,656)	-	(112,730)
Fund Balance beginning of year	22,820	29,074	83,656	-	135,550
Fund Balance end of year	<u>\$ 22,820</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,820</u>