



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B40184

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

March 14, 2012

Board of Directors
Indianapolis Public Transportation Corporation
1501 W. Washington Street
Indianapolis, IN 46222

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 2009 through December 31, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Indianapolis Public Transportation Corporation, as of December 31, 2009 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**INDIANAPOLIS PUBLIC
TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE
CONSOLIDATED CITY OF
INDIANAPOLIS MARION COUNTY
GOVERNMENT REPORTING ENTITY)**

FINANCIAL STATEMENTS

December 31, 2009

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
Indianapolis, Indiana

FINANCIAL STATEMENTS
December 31, 2009

CONTENTS

REPORT OF INDEPENDENT AUDITORS.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS.....	10
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS.....	12
STATEMENT OF CASH FLOWS.....	13
NOTES TO FINANCIAL STATEMENTS.....	15
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
SCHEDULE OF FUNDING PROGRESS.....	35
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	36
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	38
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	40
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	42
SCHEDULE OF PRIOR AUDIT FINDINGS.....	44



Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Indianapolis Public Transportation Corporation
Indianapolis, Indiana

We have audited the accompanying statements of net assets of Indianapolis Public Transportation Corporation (IPTC) (a municipal corporation and a component unit of the consolidated City of Indianapolis-Marion County Government Reporting Entity) as of December 31, 2009, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the IPTC's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IPTC at December 31, 2009, and the respective changes in its financial position and its cash flows 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 3 through 9 and the Schedule of Funding Progress on page 35 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2010 on our consideration of IPTC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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* and should be considered in assessing results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the IPTC taken as a whole. The accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2009

This section of the annual financial report presents a discussion and analysis of the Indianapolis Public Transportation Corporation's (IPTC's) financial performance for the year ended December 31, 2009. Please read this section in conjunction with the IPTC financial statements in the section that follows. For more detailed information on long-term debt activity and capital asset activity please refer to the relevant disclosures in the notes accompanying the basic financial statements.

FINANCIAL HIGHLIGHTS

- IPTC's assets exceeded its liabilities at December 31, 2009 by \$47 million (net assets). Of this amount, \$5.7 million (unrestricted net assets) may be used to meet IPTC's ongoing obligations arising from providing transportation service to the community.
- Fare revenues for 2009 increased less than 1 percent over that of the prior year.
- FTA capital contributions for 2009 more than doubled over that of the prior year.
- Operating expenses before depreciation increased 6 percent over the prior year.
- Net assets increased approximately \$10 million or 26 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements and required supplementary information.

The financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units operating as an Enterprise Fund. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenue, Expense, and Changes in Net Assets. All assets and liabilities associated with the operation of the IPTC are included in the Statement of Net Assets.

The financial statements provide both short and long-term information about the IPTC's overall financial status. The financial statements include notes to provide more detailed information on important activities. Please refer to these notes for more in depth and detailed information.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2009

FINANCIAL STATEMENT ANALYSIS

Net Assets

The IPTC's total assets at December 31, 2009 reached almost \$80.3 million. This represents a decrease of approximately 4 percent from prior year. Liabilities approximated \$33 million resulting in a decrease of 29 percent for 2009. The overall decrease in liabilities is attributed to property tax collections and settlements returning to a normal schedule.

Approximately \$25 million or 54 percent of the net assets reflects investments in capital assets, less any related debt. Of this \$25 million, \$10 million, or an increase of 86 percent in the purchase of equipment over prior year attributed to the overall increase in net assets.

TABLE 1 - NET ASSETS

	<u>2009</u>	<u>2008</u>
Assets:		
Current assets	\$ 42,578,715	\$ 52,694,433
Capital assets (net)	37,473,562	30,745,499
Other assets	<u>231,701</u>	<u>170,920</u>
Total Assets	<u>\$ 80,283,978</u>	<u>\$ 83,610,852</u>
 Liabilities:		
Current liabilities	\$ 15,815,446	\$ 27,567,541
Non-current liabilities	<u>17,239,737</u>	<u>18,706,664</u>
Total liabilities	<u>33,055,183</u>	<u>46,274,205</u>
 Net assets:		
Invested in capital assets	25,481,285	14,846,493
Restricted	16,065,599	11,486,965
Unrestricted	<u>5,681,911</u>	<u>11,003,189</u>
Total net assets	<u>47,228,795</u>	<u>37,336,647</u>
Total liabilities and net assets	<u>\$ 80,283,978</u>	<u>\$ 83,610,852</u>

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2009

Changes in Net Assets

The change in net assets for 2009 represents an increase of approximately \$10 million, or 26 percent. Of this, total revenues increased approximately \$7.2 million or 11 percent. This increase is attributed in part to a \$1.9 million or 13% increase in federal assistance. Additionally, the IPTC capital grant contributions more than doubled over that of prior year for a total increase of \$6.8 million. Overall expenses increased \$3.4 million or 6 percent. Increasing health care cost, fuel and claims experience were the significant factors attributing to this increase.

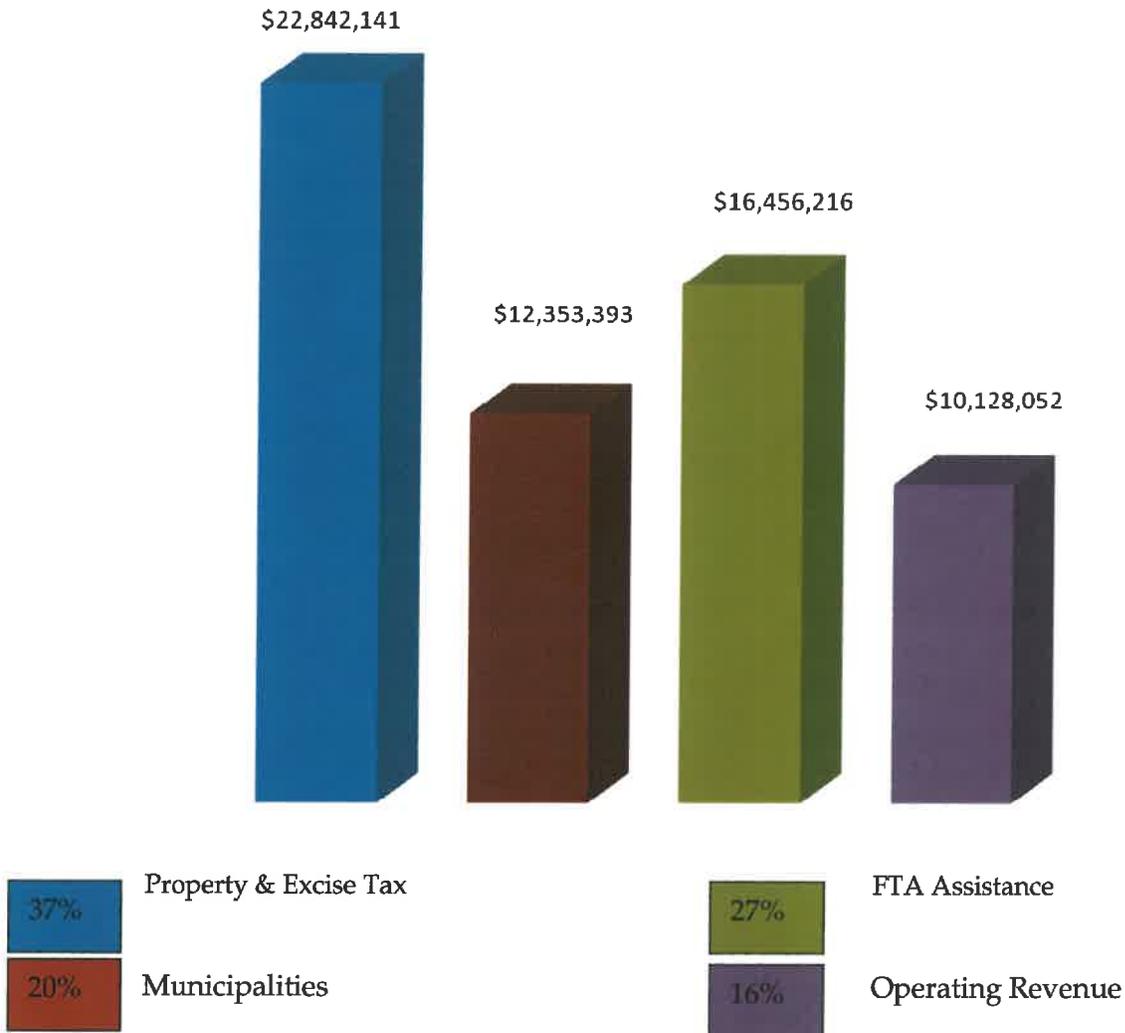
TABLE 2 - CHANGES IN NET ASSETS

	<u>2009</u>	<u>2008</u>
Operating revenues		
Passenger fares	\$ 9,823,052	\$ 9,811,303
Special service	-	175,351
Advertising	<u>305,000</u>	<u>368,689</u>
Total operating revenues	<u>10,128,052</u>	<u>10,355,343</u>
Non-operating revenues (expenses)		
Property and excise tax	22,842,141	22,670,695
Municipalities	12,353,393	12,887,164
FTA Assistance	16,456,216	14,527,052
Contributions - capital grants	12,221,576	5,430,248
Other net revenues (expenses)	<u>(670,714)</u>	<u>275,525</u>
Total non-operating revenues	<u>63,202,612</u>	<u>55,790,684</u>
Total revenues	73,330,664	66,146,027
Operating expenses		
Transportation	30,259,567	29,541,787
Maintenance of equipment, including fuel	15,218,097	14,538,889
Administrative and general	7,864,376	6,863,256
Claims and insurance	2,226,549	1,516,932
Depreciation	<u>7,869,927</u>	<u>7,627,359</u>
Total operating expenses	<u>63,438,516</u>	<u>60,088,223</u>
Change in net assets	9,892,148	6,057,804
Total net assets, beginning of year	<u>37,336,647</u>	<u>31,278,843</u>
Total assets, end of year	<u>\$ 47,228,795</u>	<u>\$ 37,336,647</u>

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2009

Revenues: For 2009, total operating revenues decreased approximately \$.2 million, or 2 percent. This decrease is attributed to the elimination of special services as a source of revenue funding for the year. Non operating revenue excluding capital grant contributions and other revenue (expenses) increased approximately \$1.6 million or 3 percent. IPTC received approximately 13 percent more in FTA assistance which contributed to the overall increase in non operating revenue.

2009 Revenue Sources

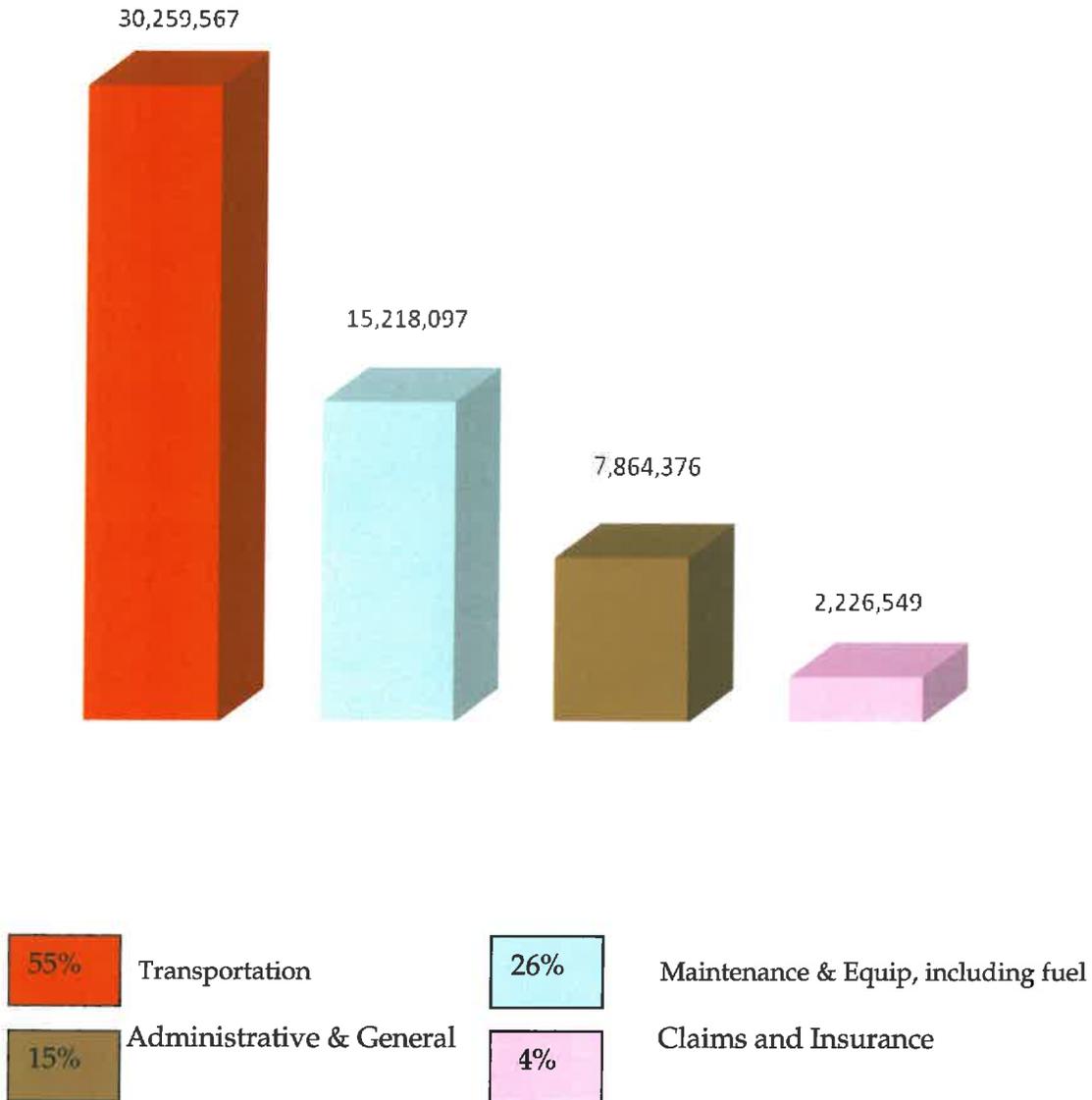


The revenues and percentages presented exclude "Contributions-capital grants" and "Other net revenues (expenses)".

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2009

Expenses: Total operating expenses including depreciation are approximately \$63 million for 2009. This is an increase of \$3.3 million, or 6 percent from prior year. Increasing health care costs, fuel and claims experience were the significant factors attributing to this increase. In addition, administrative and general operating expenses increased approximately \$1 million; \$.35 million is attributable the development of an aggressive wellness plan and in house clinic, \$.3 million is attributed to a maintenance and best practices plan and implementation, and \$.2 million is attributed to consulting services related to technology plan implementation.

2009 EXPENSES



The expenses and percentages presented exclude "depreciation" expense.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

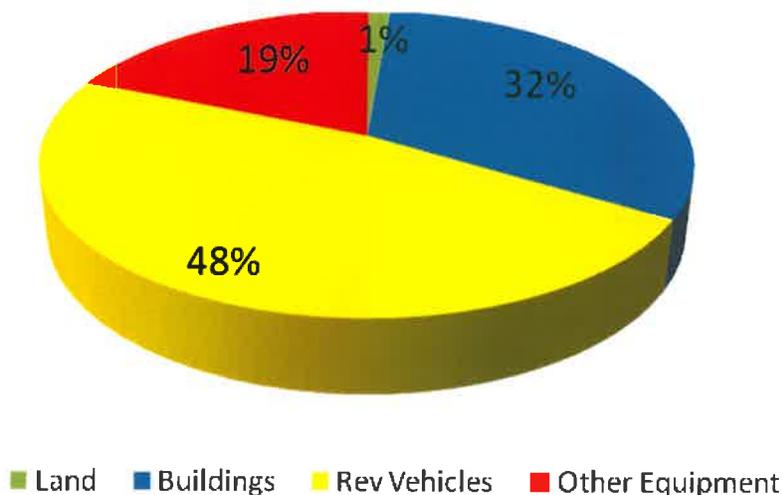
As of December 31, 2009, IPTC had invested approximately \$37 million in capital assets, net of accumulated depreciation. Compared to the prior year, this amount represents an increase of approximately \$7 million. The increase is due to capital asset acquisitions exceeding the amount of annual depreciation expense during the year. Please refer to Note 3 of the financial statements included in the next section of this report for additional information regarding capital assets activity.

Management has concentrated on making capital investments in equipment and technology that can be effective in improving service and reducing operating costs. These projects can be implemented only because of the availability of Federal capital funding and the establishment of the cumulative capital fund to provide the local match for Federal capital grants.

Significant capital asset acquisitions during 2009 included the following:

- IPTC installed and implemented various software's --- CAD AVL, Trapeze, Ellipse Payroll Module during the year at a combined cost in excess of \$4.5 million.
- IPTC acquired 57 new Paratransit vehicles during the year at a cost in excess of \$3.8 million.
- \$1.3 million was spent on mobile radios and accessories to enhance communication.
- Over \$.9 million of stimulus funding was utilized on upgrades to the HVAC and facility.
- Approximately \$.3 million was spent on upgrades to security/camera system.

Percentage allocation invested in capital assets:



INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

- For several years, IPTC has been working with local officials and consulting teams to identify the best location to operate a downtown transit center. In 2009 a site evaluation was conducted at a location in close proximity to current multimodal services (i.e. trains, buses, park and ride, pedestrian and bike). Operational plans for transit services from this site were considered and validated for future development. Next steps involve discussions on acquisition and relocation of current tenant at the end of current lease term. The earliest property would be available for demolition and/or construction would be early 2012. Federal and local match funding is available at this time.
- In 2009, IPTC completed the final elements of the technology plan that was developed during 2004. The remaining elements completed in 2009 were: a new communications system (voice and data), an AVL (automated vehicle location) system and MDT's (mobile data terminal) on all fixed route and Paratransit buses.

Debt Disclosures

As of December 31, 2009, IPTC had approximately \$17 million of notes and bonds payable. In April of 2009, IPTC refunded its 1999C bond issue into the 2009C Series. During 2009, bonds and notes payable were repaid pursuant to the maturity schedule of each issue. As of December 31, 2009, IPTC management reported compliance with all restrictive covenants on its borrowing agreements. Please refer to Note 4 of the financial statements included in next section of this report for additional information regarding debt activity.

CURRENTLY KNOWN FACTS

Other than the uncertainty of general economic indicators on IPTC, its funding sources, and its customers, there are no significant facts, decisions or conditions that are expected that management believes will have a significant impact on the financial position or results of operations.

The economic environment in which IPTC operates continues to present management with major challenges in sustaining the level and quality of transit service. Management remains concerned over rising variable operating costs such as fuel and health care benefits. Sufficient growth in our revenue sources is necessary to keep pace with the increase in variable costs.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
STATEMENT OF NET ASSETS
December 31, 2009

ASSETS

Current Assets

Cash and cash equivalents (Note 2):

Working capital	\$ 7,045,067
Capital asset acquisition	16,065,599
Liability reserve accounts	<u>1,693,690</u>
Total cash and cash equivalents	24,804,356

Receivables:

Federal grants	6,816,078
Operations receivables, net	505,231
Property tax receivables	<u>7,907,495</u>
Total receivables	15,228,804

Other Current Assets:

Materials and supplies inventory, net	2,039,006
Deposits and prepaid expenses	<u>506,549</u>
Total other current assets	<u>2,545,555</u>

Total current assets 42,578,715

Noncurrent assets

Bond issue cost, unamortized 231,701

Capital assets (Note 3):

Buildings and improvements	34,493,778
Revenue vehicles and equipment	51,102,133
Other equipment	14,190,363
Land	1,375,654
Construction in progress	<u>5,996,736</u>
Total capital assets	107,158,664

Accumulated depreciation (69,685,102)

Capital assets, net of depreciation 37,473,562

Total noncurrent assets 37,705,263

Total assets \$ 80,283,978

See accompanying notes to financial statements.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
STATEMENT OF NET ASSETS
December 31, 2009

LIABILITIES AND NET ASSETS

Current liabilities

Accounts and contract services payable	\$ 4,304,788
Accrued payroll and benefits	1,826,569
Deferred fare revenue	329,736
Bonds payable (Note 4)	1,360,000
Risk management - unpaid claim estimates (Note 5)	908,180
Federal grantor reimbursement payable	31,430
Pension arbitration liability (Note 9)	165,000
Tax anticipation warrants and accrued interest payable (Note 4)	<u>6,889,743</u>
Total current liabilities	<u>15,815,446</u>

Noncurrent liabilities

Notes payable (Note 4)	7,003,988
Bonds payable (Note 4)	9,265,000
Premium on bonds payable	309,857
Risk management - unpaid claim estimate (Note 5)	106,500
Pension arbitration liability (Note 9)	675,000
Net other post employment benefit obligation (asset) (Note 10)	<u>(120,608)</u>
Total noncurrent liabilities	<u>17,239,737</u>
Total liabilities	<u>33,055,183</u>

Net assets

Invested in capital assets, net of related debt	25,481,285
Restricted for capital assets acquisition	16,065,599
Unrestricted	<u>5,681,911</u>
Total net assets	<u>47,228,795</u>

Total liabilities and net assets \$ 80,283,978

See accompanying notes to financial statements.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year ended December 31, 2009

Operating revenues	
Passenger fares	\$ 9,823,052
Advertising	<u>305,000</u>
Total operating revenues	<u>10,128,052</u>
Operating expenses	
Transportation	30,259,567
Maintenance of equipment, including fuel	15,218,097
Administrative and general	7,864,376
Claims and insurance	2,226,549
Depreciation	<u>7,869,927</u>
Total operating expenses	<u>63,438,516</u>
Operating loss	(53,310,464)
Non-operating revenues (expenses)	
Operating assistance:	
Property and excise tax	22,842,141
Municipalities	12,353,393
FTA and local operating and planning grants, and preventative maintenance funding	16,456,216
Other net revenues (expenses) (Note 7)	<u>(670,714)</u>
Total non-operating revenue	<u>50,981,036</u>
Change in net assets before capital contribution	(2,329,428)
Contributions - capital grants	<u>12,221,576</u>
Change in net assets	9,892,148
Net assets, beginning of year	<u>37,336,647</u>
Net assets, end of year	<u>\$ 47,228,795</u>

See accompanying notes to financial statements.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
STATEMENT OF CASH FLOWS
Year ended December 31, 2009

Cash flows from operating activities	
Receipts from customers	\$ 10,197,098
Payments for transportation	(29,918,947)
Payments for maintenance of equipment, including fuel	(15,775,455)
Payments for administrative and general	(6,988,218)
Claims and insurance paid to external parties	<u>(1,957,434)</u>
Net cash used by operating activities	(44,442,956)
Cash flows from noncapital financing activities	
Property and excise tax distributions	36,577,092
Assistance from municipalities	12,353,393
FTA operating assistance	15,984,759
Interest paid on notes payable	(349,641)
Tax anticipation warrants and advances	(12,228,706)
Interest paid on tax anticipation warrants	(230,320)
Payments on pension arbitration	(165,000)
Other non-operating receipts (disbursements)	<u>366,814</u>
Net cash provided by noncapital financing activities	52,308,391
Cash flows from capital and related financing activities	
Capital grant receipts	9,864,243
Purchases of capital assets	(14,567,826)
Proceeds from sale of capital assets	13,106
Proceeds from debt issuance	8,348,080
Principal paid on debt	(9,445,000)
Debt issuance costs paid	(143,212)
Interest paid on debt	<u>(547,336)</u>
Net cash used by capital and related financing activities	(6,477,945)
Cash flows from investing activities	
Interest received on cash and cash equivalents	<u>41,831</u>
Net cash provided by investing activities	<u>41,831</u>
Net increase in cash and cash equivalents	1,429,321
Cash and cash equivalents, beginning of year	<u>23,375,035</u>
Cash and cash equivalents, end of year	<u>\$ 24,804,356</u>

See accompanying notes to financial statements.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
STATEMENT OF CASH FLOWS
Year ended December 31, 2009

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (53,310,464)
Adjustments to reconcile income (loss) to net cash:	
Depreciation expense	7,869,927
Changes in assets and liabilities:	
Other receivables	45,439
Materials and supplies inventory	(240,090)
Deposits and prepaid expense	(215,276)
Accounts and contract services payable	714,139
Accrued payroll and benefits	461,055
Deferred fare revenue	23,607
Risk management	269,115
Other post employment benefit obligation (asset)	<u>(60,408)</u>
Net cash used by operating activities	<u>\$ (44,442,956)</u>
Noncash activities:	
Capital assets in accounts payable	\$ 1,289,120
Federal grant reimbursement - in kind exchange	\$ 16,030

See accompanying notes to financial statements.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: IPTC operates in one business segment, public transportation, as an enterprise fund. IPTC's purpose is to acquire, provide and maintain an urban mass transportation system for the metropolitan Indianapolis area.

Indianapolis Public Transportation Corporation (IPTC) d/b/a IndyGo was formed on August 7, 1973 by City-County Council General Ordinance No. 36 as a municipal corporation, which has no stockholders, under the provisions of IC 36-9-4. Management of IPTC has determined that it is a component unit of the Consolidated City of Indianapolis-Marion County Government Reporting Entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 and is considered financially accountable to such reporting entity.

The Board of Directors of IPTC consists of seven members, three of whom are appointed by the Mayor of the City of Indianapolis (Mayor) and four of whom are appointed by the City of Indianapolis-Marion County Council (Council). The IPTC Board designates the management of IPTC, namely the General Manager, the Assistant General Managers and the other principal members of the management staff. The IPTC Board adopts the budget and tax levy, and approves the issuance of debt. In addition, the Council may review and modify the budget and tax levy, although its approval is not required for the issuance of debt.

Basis of Accounting: IPTC prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In 1994, IPTC adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. IPTC has therefore elected to apply all applicable GASB pronouncements. In addition, IPTC follows all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. IPTC uses the accrual basis of accounting.

Use of Estimates in Preparation of Financial Statements: The 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Classification: Expenses have been classified using functional and activity classifications using direct costs and estimated indirect cost allocations based upon time allocation and benefit.

Revenue Recognition: Passenger fares are recorded as revenue at the time such services are performed and revenues pass through the fare box. Sales of tickets are recorded initially as unredeemed fares and recognized as income upon passage through the fare box.

Property Taxes: IPTC records property taxes as earned in the year they are due and payable. Taxes are levied separately for operations, capital asset acquisitions, and debt service. All taxable property located within the IPTC taxing district is assessed annually March 1. In mid-April of the year subsequent to the assessment, individual property tax statements are to be mailed by the Marion County Treasurer to the owners of record as of the assessed valuation date. Taxes are payable to the Treasurer in equal installments on or before May 10 and November 10 of the year subsequent to assessment. The Treasurer remits collections to IPTC and other governmental units within the county.

Capital and Operating Grants: Certain expenditures for capital acquisitions, improvements and development of an urban mass transportation system have received significant federal funding through the Federal Transit Administration (FTA). The balance of such expenditures is funded through state and local sources. Funds provided by governmental authorities for capital and operating assistance are recorded when earned.

Cash Equivalents: For purposes of the statement of cash flows, IPTC considers all liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents. At December 31, 2009, cash equivalents consisted of demand obligations and certificates of deposit.

Investments: In accordance with Indiana Code Section 5-12 et sequal, it is the policy of the IPTC to deposit public funds into the depositories approved by the Marion County Board of Finance. IPTC is further authorized by statute to invest in obligations of the U. S. Treasury and U. S. Agencies, certificates of deposit, repurchase agreements, passbook savings, money market deposit accounts, and negotiable order of withdrawal accounts. It is the internal policy of IPTC to invest funds with local, federally insured banks that have a principal office within the County and have been approved by the County Board of Finance.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets: Certain cash and cash equivalent balances are restricted as follows:

Capital Asset Acquisition Accounts: Proceeds from the sale of the Indianapolis Local Public Improvement Bond Bank Bonds, Series 1999C (subsequently refunded with the 2009C issue) and Series 2002C issued by the Indianapolis Local Public Improvement Bond Bank and capital asset acquisition funds generated as a separate tax (cumulative funds) are restricted to expenditures for the acquisition of additional revenue vehicles and other capital equipment. In 2004, IPTC established a cumulative transportation fund under IC 36-9-4-48 setting forth a separate tax levy for the acquisition of capital assets.

Liability Reserve Accounts: Funds deposited in these accounts are set aside from the general operations of IPTC and used only for the payment of claims arising from accidents involving IPTC that exceed \$100,000.

Receivables: Management has recorded an allowance of \$40,000 for operating receivables. Management has not made a provision for an allowance for uncollectible property tax receivables or federal grants receivables.

Materials and Supplies Inventory: Materials and supplies inventories are valued at the lower of average cost (determined on a first-in, first-out basis) or market.

Capital Assets: Major items of capital assets acquired with federal, state and local funds are capitalized at cost. IPTC adheres to the FTA circular regarding capitalization of assets by capitalizing all assets with a value in excess of \$5,000 per unit and a useful life in excess of one year and IPTC adheres to the FTA capitalization policy as appropriate for items which are (a) homogeneous and not individually identifiable; (b) may or may not have a units cost meeting the threshold level for a capitalized asset but where the practice is to purchase in groups and capitalize the total group; and (c) will be maintained together or in the same general area, should be listed by homogeneous grouping. Examples include desks, cubicles, file cabinets, furniture, office equipment, and certain technology hardware. Expenditures for maintenance and repairs are charged to operations as incurred.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IPTC recognizes depreciation on capital assets on a straight-line basis over the estimated useful lives of the assets, as follows:

	<u>Years</u>
Land improvements	10
Buildings and shelters	10 to 25
Coaches	
Large bus	12
Body on chassis	3 to 5
Autos and trucks	3 to 10
Fare handling and maintenance equipment	3 to 10
Office furniture and equipment	2 to 20

Risk Management Claims: Property damage claims and liabilities for personal injury are recognized as incurred based on the estimated cost to IPTC upon resolution.

Compensated Absences: Essentially all employees receive compensation for vacations, holidays, illness and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave, which has been earned but not paid, has been accrued in the accompanying financial statements. Compensation for holiday and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts either do not accumulate or they do not vest.

Accumulated unused sick leave benefits are nonvesting and are only paid out upon retirement. The maximum accumulation per employee is 1,800 hours and the maximum paid out per employee is 540 hours. Accumulated unused sick leave benefits are accrued based upon historical information, for employees with at least one year of service regardless of age.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

The following summarizes the IPTC's policies on deposit and investment activity:

Investment Policy and Legal and Contractual Provisions Governing Cash Deposits: In accordance with Indiana Code Section 5-12 et sequa, it is the policy of the IPTC to deposit public funds into the depositories approved by the Marion County Board of Finance. IPTC is further authorized by statute to invest in obligations of the U. S. Treasury and U. S. Agencies, certificates of deposit, repurchase agreements, passbook savings, money market deposit accounts, and negotiable order of withdrawal accounts. It is the internal policy of IPTC to invest funds with local, federally insured banks that have a principal office within the County and have been approved by the County Board of Finance. IPTC does not have specific investment policies on concentration of credit risk, custodial credit risk, interest rate risk, or foreign currency risk.

During the year ending December 31, 2009, IPTC held interest bearing demand deposit accounts, interest bearing savings accounts and certificates of deposits with Indiana financial institutions. Demand deposits are fully insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposits Insurance Fund.

Credit Risk and Custodial Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Custodial credit risk is the risk that the IPTC will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. IPTC has no institutional money market deposit accounts.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The nature of IPTC deposits and investments do not present high exposure to interest rate market risks due to their short term nature.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. All IPTC deposits and investments are denominated in United States currency.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)

Deposits: IPTC maintains cash deposits and certificates of deposit with area financial institutions. A summary of these deposits at December 31, 2009 is as follows:

	2009	
	Carrying Value	Bank Balance
On hand	\$ 1,000	\$ -
Certificates of deposits	1,000,000	1,000,000
Cash deposits:		
Insured by FDIC	500,000	500,000
Insured by Indiana Public Deposits Insurance Fund	23,303,356	25,509,943
	\$ 24,804,356	\$ 27,009,943

NOTE 3 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets as follows:

	Balance January 1, <u>2009</u>	<u>Changes During Year</u>		Balance December 31, <u>2009</u>
		<u>Additions</u>	<u>Reductions</u>	
<u>Capital Assets Cost:</u>				
<u>Depreciable Assets:</u>				
Buildings and improvements	\$ 33,232,191	\$ 1,261,587	\$ -	\$ 34,493,778
Revenue vehicles and equipment	50,618,662	3,925,069	(3,441,598)	51,102,133
Other equipment	8,231,202	5,983,160	(23,999)	14,190,363
<u>Non-Depreciable Assets:</u>				
Land	1,375,654	-	-	1,375,654
Construction in progress	2,598,726	3,398,010		5,996,736
	\$ 96,056,435	\$ 14,567,826	\$ (3,465,597)	\$ 107,158,664

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 3 - CHANGES IN CAPITAL ASSETS (Continued)

	Balance January 1, <u>2009</u>	<u>Changes During Year</u>		Balance December 31, <u>2009</u>
		<u>Additions</u>	<u>Reductions</u>	
<u>Accumulated Depreciation:</u>				
<u>Depreciable Assets:</u>				
Buildings and improvements	\$ (28,494,949)	\$ (1,697,549)	\$ -	\$ (30,192,498)
Revenue vehicles and equipment	(32,166,789)	(4,535,539)	3,483,761	(33,218,567)
Other equipment	<u>(4,649,198)</u>	<u>(1,636,839)</u>	<u>12,000</u>	<u>(6,274,037)</u>
	<u>\$ (65,310,936)</u>	<u>\$ (7,869,927)</u>	<u>\$ 3,495,761</u>	<u>\$ (69,685,102)</u>
	Balance January 1, <u>2009</u>	<u>Changes During Year</u>		Balance December 31, <u>2009</u>
		<u>Additions</u>	<u>Reductions</u>	
<u>Capital Assets, Net:</u>				
<u>Depreciable Assets:</u>				
Buildings and improvements	\$ 4,737,242	\$ (435,962)	\$ -	\$ 4,301,280
Revenue vehicles and equipment	18,451,873	(610,470)	42,163	17,883,566
Other equipment	3,582,004	4,346,321	(11,999)	7,916,326
<u>Non-Depreciable Assets:</u>				
Land	1,375,654	-	-	1,375,654
Construction in progress	<u>2,598,726</u>	<u>3,398,010</u>	<u>-</u>	<u>5,996,736</u>
	<u>\$ 30,745,499</u>	<u>\$ 6,697,899</u>	<u>\$ 30,164</u>	<u>\$ 37,473,562</u>

Net changes in construction in progress during 2009 of \$3,398,010 consisted of new construction totaling \$8,996,957 and capital assets placed in service and reclassified as depreciable assets totaling \$5,598,947.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 4 - DEBT OBLIGATIONS

The following disclosure provides detail on IPTC debt obligations. At December 31, 2009, IPTC noncurrent debt consisted of bonds payable and notes payable. Changes were as follows:

	Balance January 1, 2009	<u>Changes During Year</u>		Balance December 31, 2009	Noncurrent	Current
		<u>Additions</u>	<u>Reductions</u>			
Bonds payable	\$ 12,025,000	\$ 8,045,000	\$ (9,445,000)	\$ 10,625,000	\$ 9,265,000	\$ 1,360,000
Notes payable	7,053,500	36,000	(85,512)	7,003,988	7,003,988	-
	<u>\$ 19,078,500</u>	<u>\$ 8,081,000</u>	<u>\$ (9,530,512)</u>	<u>\$ 17,628,988</u>	<u>\$ 16,268,988</u>	<u>\$ 1,360,000</u>

Bonds Payable: Bonds consist of the Indianapolis Local Public Improvement Bond Bank Bonds, Series 2009C and 2002C. The 1999C Bond Series was refunded into the 2009C Series in 2009. The amounts outstanding at December 31, 2009 are as follows:

	<u>2009</u>
Series 1999C	\$ -
Series 2002C	3,600,000
Series 2009C	<u>7,025,000</u>
	10,625,000
Less: Current portion	<u>(1,360,000)</u>
Noncurrent portion	<u>\$ 9,265,000</u>

Series 1999C Bonds - The Indianapolis Local Public Improvement Bond Bank Bonds Series 1999C, were refunded by Series 2009C Bonds in the amount of \$8,150,000. As a result of the refunding, the Series 1999C Bonds are considered defeased and the liability for those bonds are not included in the financial statements of IPTC. Bond interest expense on Series 1999C Bonds was \$58,645 for the year ended December 31, 2009.

The refunding resulted in decreasing its aggregate future debt service payments by \$612,631 over the next seven years and obtained an economic gain of \$501,190. As of December 31, 2009, the balance of the remaining defeased bonds was \$8,150,000.

Series 2002C Bonds - The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2002C, dated December 18, 2002, were issued in the aggregate principal amount of \$5,000,000, at a premium of \$49,626. The Series 2002C Bonds are being used to provide local matching funds for FTA grants to acquire capital assets. Bond proceeds were also used to redeem the 2001 Bond Anticipation Note. The Series 2002C Bonds bear interest rates varying from 2.6 to 4.0%, payable on January 10 and July 10 commencing July 10, 2004 and have serial maturities from 2006 through 2017. The Series 2002C Bonds maturing on or after January 10, 2013 may be redeemed on or after January 10, 2012, at the redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the date of redemption.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 4 - DEBT OBLIGATIONS (Continued)

Debt service requirements for the bonds are:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 300,000	\$ 168,906	\$ 468,906
2011	300,000	157,206	457,206
2012	280,000	145,206	425,206
2013	275,000	133,726	408,726
2014	265,000	121,764	386,764
Thereafter	<u>2,180,000</u>	<u>206,065</u>	<u>2,386,065</u>
	<u>\$ 3,600,000</u>	<u>\$ 932,873</u>	<u>\$ 4,532,873</u>

Bond interest expense on Series 2002C Bonds was \$179,081 for the year ended December 31, 2009.

Series 2009C Bonds - The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2009C, dated August 4, 2009, were issued in the aggregate principal amount of \$8,045,000, at a premium of \$303,081. Proceeds were used to provide local matching funds for FTA grants to acquire new and replacement coaches and other vehicles and equipment and to perform preventative maintenance on equipment and rehabilitation of the facility. Bond proceeds were also used to refund the Series 1999C Bonds.

The Series 2009C Bonds bear interest rates varying from 2.75 to 4.00%, payable on January 10 and July 10 commencing January 10, 2010 and have serial maturities through 2016. The Bonds are not subject to optional redemption prior to maturity dates. Debt service requirements to maturity for the outstanding bonds are as follows:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,060,000	\$ 236,975	\$ 1,296,975
2011	1,130,000	205,175	1,335,175
2012	1,230,000	174,100	1,404,100
2013	1,315,000	131,050	1,446,050
2014	1,415,000	91,600	1,506,600
Thereafter	<u>875,000</u>	<u>35,000</u>	<u>910,000</u>
	<u>\$ 7,025,000</u>	<u>\$ 873,900</u>	<u>\$ 7,898,900</u>

Bond interest expense on Series 2009C Bonds was \$309,610 for the year ended December 31, 2009.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
. Year ended December 31, 2009

NOTE 4 - DEBT OBLIGATIONS (Continued)

Notes Payable: Notes payable consists of two agreements described as follows:

Indianapolis Public Transportation Taxable Notes of 2008 - On December 18, 2008, IPTC issued notes payable designated as "Indianapolis Public Transportation Corporation Taxable Notes of 2008" in an aggregate amount of \$5,000,000. The notes were purchased by the Indianapolis Local Public Improvement Bond Bank (Bond Bank) from proceeds of Bond Bank notes with Fifth Third Bank. The notes have a five-year term with an initial interest rate of 3.09875% and the final four years at a variable rate based on the LIBOR rate plus 125 basis points. The purpose of these transactions was to provide a revolving line of credit to be used for operating cash flow. Principal is due at the end of term of the agreement and is categorized as a noncurrent liability.

Note interest expense on this obligation was \$161,095 for the year ended December 31, 2009.

City of Indianapolis Loan Agreement - In 2004, IPTC entered into a \$2 million loan agreement with the City of Indianapolis to provide working capital to cover operating expenses, to prevent service reductions in bus routes, to provide alternative forms of transportation for passengers affected by planned route changes, and review existing routes to plan for needed service change.

In 2007, an agreement was executed to extend the loan. As extended, the loan is payable no later than December 31, 2010. Concurrent with the extension of the agreement, the City expressly waived repayment of interest that had been accrued from date of origination through the date of extension of the agreement amounting to \$105,500. Interest expense for the year ended December 31, 2009 was \$36,000. During 2009 IPTC paid interest of \$77,400 that included interest accruing from the 2007 loan extension through December 31, 2009.

Subsequent to the balance sheet date, IPTC entered into an agreement with the City of Indianapolis that replaces the 2007 loan extension agreement. The new loan agreement extends the due date to no later than December 31, 2011, provides for interest at 2% per annum and provides a mechanism for repayment by investing in capital assets that are mutually beneficial to the City of Indianapolis and IPTC. The loan is categorized as a noncurrent liability.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
 (A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS)
 MARION COUNTY GOVERNMENT REPORTING ENTITY)
 NOTES TO FINANCIAL STATEMENTS
 Year ended December 31, 2009

NOTE 4 - DEBT OBLIGATIONS (Continued)

Tax Anticipation Warrants: This short-term debt was issued in the form of tax anticipation warrants, to provide short-term operating cash at a discount rate of 1.48%. Absent any disruptions to the property tax collection cycle, all property in Marion County is to be assessed by March 1st of each fiscal year and that assessed value is used by qualified entities to set their budget, tax rate, and levy for the subsequent fiscal year. Property taxes are due in equal installments on May and November 10th of the following year by home owners and disbursed by the county auditor to qualifying entities no later than the end of June and December of that year.

Legislation enacted under HEA 1001-2008 led to widespread changes in property tax law. Under this law, the amount of property taxes a parcel is liable for is limited to 1.5% of its assessed value (for residential), 2.5% (non-homestead residential), 3.5% (all other property) for Pay 2009, dropping to 1%, 2%, and 3% respectively for Pay 2010.

While the terms of HEA 1001-2008 were being finalized, the state also phased in "trending" where property values are to be adjusted on an annual basis so that the next general reassessment would not be as arduous. Trending began in 2007 which caused new collection delays, and in a few counties - including Marion - continued questions of reliability caused the governor to order a reassessment in questionable counties. Marion County's Pay 2009 taxes were delayed as a result. With this, final 2009 tax settlement was not completed until March 2010, causing IPTC to have insufficient funds to repay its tax warrants, therefore leading to an outstanding tax anticipation warrant as of December 31, 2009 in the amount of \$6,818,737, plus accrued interest of \$71,006 through December 31, 2009. This resulted in a total liability of \$6,889,743 being recorded as tax anticipation warrants and accrued interest payable liability. In 2008, the total liability of \$19,047,443 consisted of tax advances of \$12,942,949 and tax anticipation warrants of \$6,104,494.

	Balance January 1, <u>2009</u>	<u>Changes During Year</u>		Balance December 31, <u>2009</u>
		<u>Issued</u>	<u>Retired</u>	
Tax Anticipation Warrants	\$ <u>6,104,494</u>	\$ <u>13,610,645</u>	\$ <u>12,896,402</u>	\$ <u>6,818,737</u>

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 5 - RISK MANAGEMENT

IPTC is exposed to various risks of loss related to theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which IPTC carries commercial insurance and maintains certain risks. Detail of the claims liability, based upon the requirements of GASB Statement No. 10, is provided below. This requires that a liability for claims be reported if information before the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the liability can be reasonably estimated. The liability is estimated based upon historical experience. There is no significant incremental claim adjustment expense, salvage, or subrogation attributable to this liability. Activity for the year ended December 31, 2009 was as follows:

	<u>2009</u>
Unpaid claims, beginning of year	\$ 745,565
Incurred claims and changes in claim estimates	1,266,825
Claim payments	<u>(997,710)</u>
 Unpaid claims, end of year	 <u>\$ 1,014,680</u>
 Current portion	 \$ 908,180
Noncurrent portion	<u>106,500</u>
	 <u>\$ 1,014,680</u>

On December 23, 1986, IPTC's Board of Directors approved the establishment of a non-reverting fund (Liability Reserve Accounts) for payment of personal injury and property damage claims in excess of \$100,000. For claims in excess of \$100,000, the amount of the claim exceeding \$100,000 will be paid out of the liability reserve accounts. Claims up to \$100,000 will be paid out of the general accounts of IPTC. IPTC is self-insured for worker's compensation up to \$275,000 per occurrence and is entirely self-insured for personal injury. It is completely self-insured for property damage to coaches.

Estimates of expected losses to IPTC resulting from personal injuries for which claims have been filed or for which it is anticipated claims will be filed, have been recorded in the financial statements. Litigation occasionally results from such claims. When, in the opinion of management, such litigation will result in a loss to IPTC, provision is made in the financial statements for loss expected upon resolution. There were no significant reductions in insurance coverage during 2009 and there were no settlements that exceeded insurance coverage during 2009 for those risks that IPTC purchased insurance.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 6 - OPERATING LEASES

IPTC is obligated under certain leases through August 2013 for the Transit Store premise, parking premises and maintenance and office equipment that are accounted for as operating leases. Lease rental expense for the year ended December 31, 2009 was \$138,687. A schedule of future minimum operating lease payments required that have initial or remaining lease terms in excess of one year as of December 31, 2009:

Year Ending December 31:

2010	\$	125,484
2011		76,267
2012		7,288
2013		2,345
Thereafter		<u>-</u>
	\$	<u>211,384</u>

NOTE 7 - OTHER NON-OPERATING REVENUE (EXPENSE)

Other non-operating revenue (expense) consisted of the following:

	<u>2009</u>
Other revenues:	
Interest income	\$ 63,416
Miscellaneous	350,784
Gain on sale of capital assets	55,270
Pass-through grant for sub-recipients	<u>9,026,545</u>
	9,496,015
Other expenses:	
Interest - payable from restricted debt service assets	(547,336)
Interest - payable from unrestricted assets	(498,420)
Amortization of bond issue costs	(82,430)
Loss on sale of capital assets	(11,998)
Pass-through grant to sub-recipients	<u>(9,026,545)</u>
	<u>(10,166,729)</u>
	<u>\$ (670,714)</u>

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments: Operating lease commitments totaling \$211,384 through 2013 are disclosed in Note 6.

Contingencies: Various claims and lawsuits arising from the normal course of business are pending against IPTC. The nature of the IPTC's operations sometimes subjects the IPTC to litigation resulting from workmen's compensation claims, and property damages and personal injury. General Counsel for the IPTC is of the opinion that ultimate settlement of such claims in excess of insurance coverage will not result in a material adverse effect on IPTC's financial statements as of December 31, 2009. IPTC has recorded an estimated liability for risk management unpaid claims of \$1,014,680 at December 31, 2009 as disclosed in Note 5.

The IPTC has had preliminary discussions with the Indiana Department of Environmental Management regarding a potential contamination remediation issue traced to leaking underground storage tanks. The cost of remediation can't be reasonably estimated at this time and has not been recorded as a liability on the financial statements. However, in 2010 IPTC expects to reasonably measure costs associated with the contamination.

NOTE 9 - BENEFIT PLANS

Defined Contribution Plan: IPTC maintains a defined-contribution plan, the Indianapolis Public Transportation Corporation Pension Plan, for the benefit of substantially all of its employees. All employees who are regularly scheduled to work at least 30 hours per week become eligible for the Plan on the first day of the month following commencement of employment or completion of any applicable probationary period. The Plan may be amended by action of IPTC's Board of Directors, subject to any applicable collective bargaining agreement obligations. The plan requires the employees to contribute 3.5% of their compensation. For some employees, the employer contributes 3.5% to this plan and for other employees the employer contributes 3% to this plan and .5% to the defined benefit plan pursuant to an arbitration award. Participant contributions for 2009 were \$521,273. Employer contributions for 2009 were \$426,916.

Deferred Compensation Plan: IPTC maintains an IRS Code Section 457 plan, the Indianapolis Public Transportation Corporation Deferred Compensation Plan. Employees become eligible to participate in the Plan on the first day of the second month following commencement of employment or completion of any applicable probationary period. The Plan allows for employee contributions only. Plan assets are held in a trust separate from IPTC's assets. Contributions by employees to the Plan were approximately \$230,556 for the year ended December 31, 2009.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 9 - BENEFIT PLANS (Continued)

Pension Arbitration Liability: On January 10, 2006, a binding interest arbitration award was issued regarding the single-employer defined-benefit exempt governmental plan (Defined Benefit Pension Plan) known as the Indianapolis Public Transportation Corporation Pension Plan. The arbitration award effectively modified the existing plan agreement for retirees, participants, Indianapolis Public Transportation Corporation and Amalgamated Transit Union, Local 1070.

IPTC, prior to this award, was not obligated to make any further contributions to this plan. Subsequent to this award, IPTC was obligated to contribute \$1,500,000 to the plan over a ten-year period ending 2015. IPTC contributed \$165,000 to the plan in 2009 and has reported a pension arbitration liability totaling \$840,000 at December 31, 2009.

The following is information specific to the defined benefit pension plan:

Current portion	\$ 165,000
Noncurrent portion	<u>675,000</u>
	<u>\$ 840,000</u>

Defined Benefit Pension Plan Description: IPTC provides pension benefits through a single-employer defined-benefit exempt governmental plan known as the Indianapolis Public Transportation Corporation Pension Plan. The Plan is part of an agreement between IPTC and ATU.

Effective December 31, 1997, the Plan was amended to freeze all accrued benefits. While the Plan continues to exist, no further contributions were to be made by either the employees or IPTC. Full-time IPTC employees who had completed sixty working days of continuous service, on or before December 31, 1997, were eligible to participate in the Plan.

For purposes of computing normal retirement benefits, employees' total earnings through December 31, 1997, will be considered. In addition, effective December 31, 1997, the Plan was amended to remove the disability benefit provisions.

Normal retirement benefits are payable for employees who have attained age 65 and completed 15 years of service. Early retirement benefits are available for employees who have attained age 55 and completed 15 years of continuous service. Employees are considered 100% vested upon reaching early retirement eligibility.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 9 - BENEFIT PLANS (Continued)

Prior to December 31, 1997, the normal retirement benefit was equal to 2.75% of total employee earnings since January 1, 1950, plus .75% of the average annual earnings of the occupation group to which the employee belonged for the five years preceding 1950, multiplied by the years of continuous service prior to 1950.

Early retirement benefits were available at reduced amounts. Participating employees contributed 3.5% of total compensation to the Plan, and the IPTC contributed 3.5% of the total compensation of the participating employees. Employees' contributions plus interest is to be refunded in the event of separation of service or death.

Funding Policy: After December 31, 1997, there were no contribution requirements for either the employer or the employees. Before the Plan was frozen, the contribution requirements of Plan members and IPTC were established by an agreement between IPTC and Local 1070 of the ATU. Contribution requirements were not actuarially determined, but rather were set at 3.5% of annual covered payroll each for employees and the employer.

The binding interest arbitration award, described above under Pension Arbitration Liability, allows for certain participants to be returned contributions they made to the plan without interest and are to be withdrawn for future participation in this plan. These employees will be able to participate/continue to participate in the employee defined contribution plan (401A). Future contributions made by employees into the defined contribution plan will continue to be at 3.5%. The employer match percentage will remain at 3.5%; however only 3% will go to match employee contributions into the defined contribution plan while the remaining .5% will be directed to the defined benefit plan.

Certain other vested participants are to remain in the defined benefit plan while actively employed at IPTC and are to begin making contributions to the plan at a rate of 4.5%. The employer will match their contributions up to 3.5%. Participants remaining in the defined benefit plan will not be allowed to make future contributions to their defined contribution accounts.

The interest arbitration award eliminated the early retirement provision previously provided for in the defined benefit plan.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 9 - BENEFIT PLANS (Continued)

Annual Pension Cost and Net Pension Obligation: Because the Plan was frozen as of December 31, 1997, and because, before the freeze, the contribution requirements were not actuarially determined, many of the accounting and disclosure requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, are not applicable. There are no annual required contributions for 2009 and no annual pension cost. IPTC has determined that it has no pension liability (asset) at transition as defined by GASB Statement No. 27.

The Plan's obligations exceeded the market value of its assets by approximately \$502,935 at December 31, 2009. This obligation remains that of the Plan rather than of IPTC. In the event that the Plan does not attain full funding, pursuant to the Plan agreement, the net assets of the Plan will first be applied to repay individual employee contributions in excess of any employee contributions previously disbursed. The remainder of net assets will be distributed in the proportion that each employee's actuarially determined accrued benefit has to the accrued benefits of all covered employees.

The Plan's obligation was determined as part of the December 31, 2009 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included an 8% investment rate of return (net of administrative expenses) and projected salary increases of 0% due to the Plan's freeze as of December 31, 1997. No inflation component has been considered. The projected benefit equals the employee's actual benefit (based on total compensation through December 31, 1997) with no future benefit accruals. Three-year trend information for the plan reflects that IPTC has no annual pension cost or net pension obligation.

The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial accrued liabilities. Information about funded status and funding progress is presented using the entry age actuarial cost method. The information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description: The Plan consists of IPTC providing medical and life insurance benefits to retirees. Retirees under the 1997 program and their spouses under the age of 65 not covered by Medicare are eligible under the provisions to continue these benefits but must pay 20% of the medical premium. COBRA eligible, or employees who are not receiving pay from the Corporation must submit the employee's portion, or the COBRA premiums, to Human Resources no later than the first day of the month the premium is due to retain insurance coverage. IPTC will pay \$75 per month towards the COBRA continuation or conversion of group health insurance retained by any employee who retires early or is on disability with IPTC pension. If, after the 18th month of continuation group coverage, the retiree is still under the age of 65, IPTC reimburses the retiree up to a maximum of \$225 on a quarterly basis towards the cost of the premiums. Retirees also qualify for a life insurance policy with benefits of \$5,500 if they retire on or after the age of 55 with at least 15 years of service. This post employment benefit plan is of the single employee defined benefit variety.

Funding Policy: There is no requirement for IPTC to fund these benefits though IPTC has recorded the cumulative difference between the annual required contributions (ARC) and amounts contributed to the OPEB plan as a net obligation (asset). The following schedule reports ARC and actual contributions made for the past two years:

<u>Year Ended</u> <u>December 31</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Actual</u> <u>Contribution</u> <u>Made</u>	<u>Percentage</u> <u>Contributed</u>
2009	\$ 89,377	\$ 149,700	167%
2008	85,400	145,600	170%

Annual OPEB Cost and net OPEB Obligation (Asset): The other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the annual cost for the year, the amount actually contributed to the plan and changes in the net OPEB obligation (asset):

Annual required contribution	\$ 89,377
Interest on net OPEB obligation (asset)	(2,408)
Adjustment to annual required contribution	<u>2,323</u>
Annual OPEB cost	89,292
Contributions made	<u>149,700</u>
Increase in net OPEB obligation (asset)	(60,408)
Net OPEB obligation (asset) - beginning of year	<u>(60,200)</u>
Net OPEB obligation (asset) - end of year	<u>\$ (120,608)</u>

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2009

NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funded Status and Funding Progress: As of December 31, 2009, the actuarial accrued liability for benefits was \$1,784,400 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$1,784,400. The covered payroll (annual payroll of active employees covered by the plan) was not applicable, and the ratio of the UAAL to the covered payroll was not applicable.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial valuation of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since 2007, the first year that an actuarial valuation was performed, the schedule of funding progress reflects only the transition year's data.

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

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
 (A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
 MARION COUNTY GOVERNMENT REPORTING ENTITY)
 NOTES TO FINANCIAL STATEMENTS
 Year ended December 31, 2009

NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees and is calculated based on the assumptions described in this report and census data. The Actuarial Accrued Liability (AAL) is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The AAL equals the present value of benefits multiplied by a fraction equal to service to date over service at expected retirement. The Normal Cost is the actuarial present value of benefits attributed to one year of service. This equals the present value of benefits divided by service at expected retirement. Since retirees are not accruing any more service, their normal cost is zero. In determining the Annual Required Contribution, the Unfunded AAL is amortized as a level percentage payroll (assuming 3% annual increases) over 30 years (open). The actuarial assumptions are summarized below:

Measurement Date:	December 31, 2009	
Discount Rate:	4.0% effective annual rate	
Health Cost Inflation Trend:	8.5% down to 5% over 9 years	
Compensation Increases:	Compensation amounts are assumed to increase 3% per year	
Retirement Rates:	<u>Age</u>	<u>%</u>
	55-59	5%
	60-61	10%
	62	30%
	63-64	15%
	65-69	40%
	70+	100%
Spouse Coverage:	80% of employees and retirees are assumed to have a covered spouse in retirement (no dependent children are assumed)	
Spouse Age:	Female spouses are assumed to be three years younger than male spouses	

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
 (A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
 MARION COUNTY GOVERNMENT REPORTING ENTITY)
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 December 31, 2009

Schedule of Funding Progress: Retiree Health and Life Insurance Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
12/31/2009	\$ 0	\$ 1,784,400	\$ 1,784,400	0%	N/A	N/A
12/31/2008	0	1,988,300	1,988,300	0%	N/A	N/A
12/31/2007	0	1,844,600	1,844,600	0%	N/A	N/A

SUPPLEMENTARY INFORMATION

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS)
MARION COUNTY GOVERNMENT REPORTING ENTITY)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2009

Federal Grantor/ Program or Cluster Title	CFDA Number	Grant or Pass-through Number	Federal Expenditures	Amounts Awarded to Subrecipients
Department of Transportation				
Federal Transit Administration				
Direct programs:				
Federal Transit Cluster:				
Capital Investment Grants	20.500		\$ 4,177,014	\$ -
Formula Grants	20.507		13,961,830	-
	20.507	IN040009	8,266,849	8,266,849
	20.507	IN030134	633,003	633,003
Formula Grants - ARRA	20.507		<u>9,213,449</u>	<u>-</u>
Total Federal Transit Cluster			36,252,145	8,899,852
Transit Services Programs Cluster:				
Job Access - Reverse Commuter Grant	20.516		492,982	-
	20.516	IN37X011	<u>126,693</u>	<u>126,693</u>
			619,675	126,693
New Freedom Program	20.521		<u>426,518</u>	<u>-</u>
Total Transit Services Programs Cluster			1,046,193	126,693
Federal Transit Highway Planning and Construction	20.205		<u>188,729</u>	<u>-</u>
Total Department of Transportation/ Federal Transit Administration			<u>37,487,067</u>	<u>9,026,545</u>
Department of Homeland Security				
Office for Domestic Preparedness				
Pass-through from the City of Indianapolis, Indiana:				
Urban Area Security Initiative	97.067		<u>217,270</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 37,704,337</u>	<u>\$ 9,026,545</u>

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2009

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of IPTC, for the year ended December 31, 2009 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



Crowe Horwath LLP
Independent Member Crowe Horwath International

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

Board of Directors
Indianapolis Public Transportation Corporation
Indianapolis, Indiana

We have audited the financial statements of Indianapolis Public Transportation Corporation (IPTC) as of and for the year ended December 31, 2009, and have issued our report thereon June 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered IPTC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IPTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the IPTC's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 22, 2010



Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Indianapolis Public Transportation Corporation
Indianapolis, Indiana

Compliance

We have audited the compliance of the Indianapolis Public Transportation Corporation (IPTC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. IPTC's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of IPTC's management. Our responsibility is to express an opinion on IPTC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about IPTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of IPTC's compliance with those requirements.

As described in item 09-01 in the accompanying Schedule of Findings and Questioned Costs, IPTC did not comply with requirements regarding reporting that are applicable to the Federal Transit Cluster. Compliance with such requirements is necessary, in our opinion, for the IPTC to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, IPTC complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

Internal Control Over Compliance

The management of IPTC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered IPTC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of IPTC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in IPTC's internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 09-01 to be a material weakness.

IPTC's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit IPTC's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 22, 2010

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2009

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

December 31, 2009 Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

yes no

Significant deficiencies identified that are not
considered to be material weaknesses?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

yes no

Significant deficiencies identified that are not
considered to be material weaknesses?

yes none reported

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported

In accordance with section 510(a) of Circular A-133

yes no

Identification of major programs:

CFDA 20.500/20.507/20.507ARRA - Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 1,131,130

Auditee qualified as low-risk auditee?

yes no

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2009

SECTION 2 - FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None

SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133 SECTION 510(A)

09-01 Federal Reporting (All CFDA's) (Material Weakness)

Condition and Criteria: The client prepared Schedule of Expenditures of Federal Awards (SEFA) for the year ended December 31, 2009 was adjusted to correct for errors such as reporting of accrued expenditures, an omission of a federal grant source, and recharacterization of ARRA funding. Federal regulations (OMB Circular A-133) require that an accurate SEFA be prepared for the same time period as the financial statements.

Cause and Effect: The above condition is the result of internal controls over the reconciliation of federal expenditures recorded in the financial statements to the SEFA.

Questioned Costs: None

Recommendations: We recommend that management implement procedures to reconcile amounts reported on the final SEFA to the general ledger, document that a final review was completed, confirm that all federally funded expenditures are separately identified, verify that all required components are present (separated by granting agency, CFDA #, Pass-through ID, expenditures).

Management Response and Corrective Action Plan: Management will implement procedures to reconcile amount reported on the final SEFA to the general ledger.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2009

SECTION 2 - FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

08-01 Controls over Financial Reporting (Material Weakness) (Resolved)

Condition and Criteria: The financial statements for the years ended December 31, 2008 and 2007 were restated to correct errors in reporting of IPTC's other post employment benefit plan (OPEB) and federal grants. *Statement on Auditing Standards No. 112, Communication of Internal Control Related Matters Identified in an Audit ("SAS 112")*, clarifies management's responsibility to have internal controls in place to provide appropriate and reliable financial reports and to select and apply appropriate accounting principles. SAS 112 indicates that the "identification of a material misstatement in the financial statements for the period under audit that was not initially identified by the entity's internal controls" should be regarded as at least a significant deficiency, or a material weakness.

Cause and Effect: Following is a summary of the restatements:

- OPEB - IPTC previously reported the actuarial liability for the OPEB plan as an accounting liability. IPTC has determined that only the net OPEB obligation should be recorded as an accounting liability under GASB 45. The net OPEB obligation is defined as the cumulative difference from the implementation date of GASB 45 between the annual OPEB cost and the employer's actual contributions. This correction resulted in a decrease to liabilities of \$2,048,500 and \$1,844,600 at December 31, 2008 and 2007, respectively.
- UASI Grant (CFDA 97.067) - IPTC was a sub-recipient of federal funds through the City of Indianapolis of an award totaling \$369,539. IPTC only expended a portion of federal funds under this subgrant agreement in 2008 (\$152,269), although, the entire amount of the award (\$369,539) was recorded as revenue and receivable in 2008. In addition, actual federal expenditures related to this award were omitted from the Schedule of Expenditures of Federal Awards (SEFA) in 2008. This correction resulted in a decrease in federal grants receivable and revenue of \$217,270 as of and for the year ended December 31, 2008, and an increase of federal expenditures reported on the SEFA of \$152,269.
- ARRA Grant (CFDA 20.507) - IPTC recorded an accrual of federal grant revenue for 2008 Preventative Maintenance (PM) under the assumption that these expenditures would be reimbursed under an FTA formula grant that required a 20% local match. Subsequent to the issuance of audited financial statements, IPTC determined that the PM accrued at year end was eligible to be reimbursed under the American Recovery and Reinvestment Act funded formula grant that did not require any local match. Therefore, previously reported grants receivable, revenue and federal expenditures reported on the SEFA were understated by 20% of eligible PM expenditures, or \$404,798, as of and for the year ended December 31, 2008. In addition, due to the timing of decisions and reporting dates, the SEFA did not reflect that a portion of the expenditures were attributable to ARRA funding.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2009

SECTION 2 - FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Recommendations: We recommend that management continue to evaluate new accounting guidance for the impact on IPTC's financial statements.

We also recommend that management implement a formal process to evaluate all sources of grant funding and properly reconcile grant revenue, expenditures and amounts reported on the SEFA. This evaluation and reconciliation of grant funding should be reviewed by individual(s) independent of the preparation and knowledgeable of IPTC's grant funded activities.

Status: Resolved.

SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133 SECTION 510(A)

08-02 Federal Reporting (All CFDA's) (Material Weakness) (Similar Finding reported at 09-01)

Condition and Criteria: The Schedule of Expenditures of Federal Awards (SEFA) for the year ended December 31, 2008 was restated to correct for financial statement errors as reported in finding 08-01 as well as other errors. Federal regulations (OMB Circular A-133) require that an accurate SEFA be prepared for the same time period as the financial statements.

Cause and Effect: The above condition is the result of the financial statement restatement and internal controls over the proper reconciliation of federal expenditures recorded in the financial statements to the SEFA. Some examples of errors that have been corrected on the SEFA include reporting of accrued expenditures, an omission of a federal grant source, and recharacterization of ARRA funding.

Questioned Costs: None

Recommendations: We recommend that management implement procedures to reconcile amounts reported on the final SEFA to the general ledger, document that a final review was completed, confirm that all federally funded expenditures are separately identified, verify that all required components are present (separated by granting agency, CFDA #, Pass-through ID, expenditures).

Status: Similar finding reported at 09-01. Management will implement procedures to reconcile amount reported on the final SEFA to the general ledger.
