B46874

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

September 7, 2016

Board of Directors
Gary Public Transportation Corporation
100 West 4th Avenue, Third Floor
Gary, IN 46402

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 2014 to December 31, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of Gary Public Transportation Corporation, as of December 31, 2014 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to Section II, Financial Statement Finding 2014-01, Controls Over Financial Reporting (Material Weakness) that is referenced in the Independent Auditor's 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.*

The audit report is filed with this letter in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

GARY PUBLIC TRANSPORTATION CORPORATION

FINANCIAL STATEMENTS
December 31, 2014

GARY PUBLIC TRANSPORTATION CORPORATION
Gary, Indiana

FINANCIAL STATEMENTS
December 31, 2014

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gary Public Transportation Corporation
Gary, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Gary Public Transportation Corporation (the Corporation) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

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

(Continued)

Opinion

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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying schedule of expenditures of federal awards as 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. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated September 30, 2015 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 30, 2015

The management discussion and analysis of the financial performance of Gary Public Transportation Corporation ("the Corporation" or "GPTC") provides an overall review of the Corporation's financial activities for the years ended December 31, 2014 and 2013. The management of the Corporation encourages readers to consider the information presented herein in conjunction with the financial statements to enhance their understanding of the Corporation's financial performance. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- In total for all activities, the Corporation's total assets increased by $0.4 million, or 5.1%, from $7.8 million in 2013 to $8.2 million 2014. Liabilities decreased by $0.7 million during the same period representing a 78% decrease.

- There was an increase of $1.2 million or 17% increase in change in net position in 2014, compared to an unchanged position for 2013. The increase in net position in 2014 was primarily due to FTA funding for the purchase of capital equipment, an increase in ridership and service, new Federal grant eligibility for diesel reimbursement and the additional eligibility of a new Federal grant, Map 21. Management continued to control expenses wherever possible.

- Total 2014 operating and non-operating revenues were $7.8 million, an increase of $0.9 million, or 14.8%, from the 2013 revenues of $6.9 million. The majority of the increase was due to an increase in federal funding assistance.

- Total 2014 operating and non-operating costs in 2014 were $6.5 million, a decrease of $0.4 million, or 5.8%, from 2013 costs of $6.9 million. The majority of the decrease was due to a decrease in services and maintenance cost in 2014.

- The most significant continuing financial challenges have been the complexity of maintaining operating revenue from local and state sources. The difficulty is due to lower than anticipated collection rates in property taxes of property owners, which has been affected by increased assessed valuations. Additional challenges include the performance based formula for state assistance, and stagnant or inconsistent passenger and advertising revenue.

Overview of the Financial Statements

The financial section of this report is comprised of three components:

- Management Discussion & Analysis (this section)
- Financial statements with corresponding note disclosures, and
- Other supplementary information

The financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

The statement of net position presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

(Continued)

The statement of revenues, expenses, and changes in net position present information showing how the Corporations' net position changed during the year being reported. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The financial statements present the functions of the Corporation that are principally supported by operating and non-operating revenues/expenses. The Corporation has business-type activities; that is, functions that are intended to recover a portion of their costs through user fees and charges. These activities are reported in the financial statements as operating revenue that consist of passenger fares and advertising revenue.

Financial Analysis

Statement of Net Position: The Corporation's total assets of $8.2 million increased from the prior year by $0.4 million. This increase is primarily due to the additions of capital assets for the bus purchases during the year. Liabilities decreased by $0.7 million as there were no significant outstanding invoices related to the Dispatch Console and Disaster Recovery projects as in prior year.

Table 1: Condensed Statement of Net Position (in millions)

	2014	2013	Variance	% Variance
Assets				
Current and other assets	$ 2.0	$ 2.1	$ (0.1)	-4.8%
Capital Assets	6.2	5.7	0.5	8.8%
Total assets	8.2	7.8	0.4	5.1%
Liabilities				
Other current liabilities	0.2	0.9	(0.7)	-77.8%
Total liabilities	0.2	0.9	(0.7)	-77.8%
Net Position				
Net investment in capital assets	6.2	5.7	0.5	8.8%
Restricted for capital projects	-	0.1	(0.1)	100.0%
Unrestricted	1.8	1.0	0.8	80.0%
Total net position	8.0	6.8	1.2	17.6%
Total liabilities and net position	$ 8.2	$ 7.7	$ 0.5	6.5%

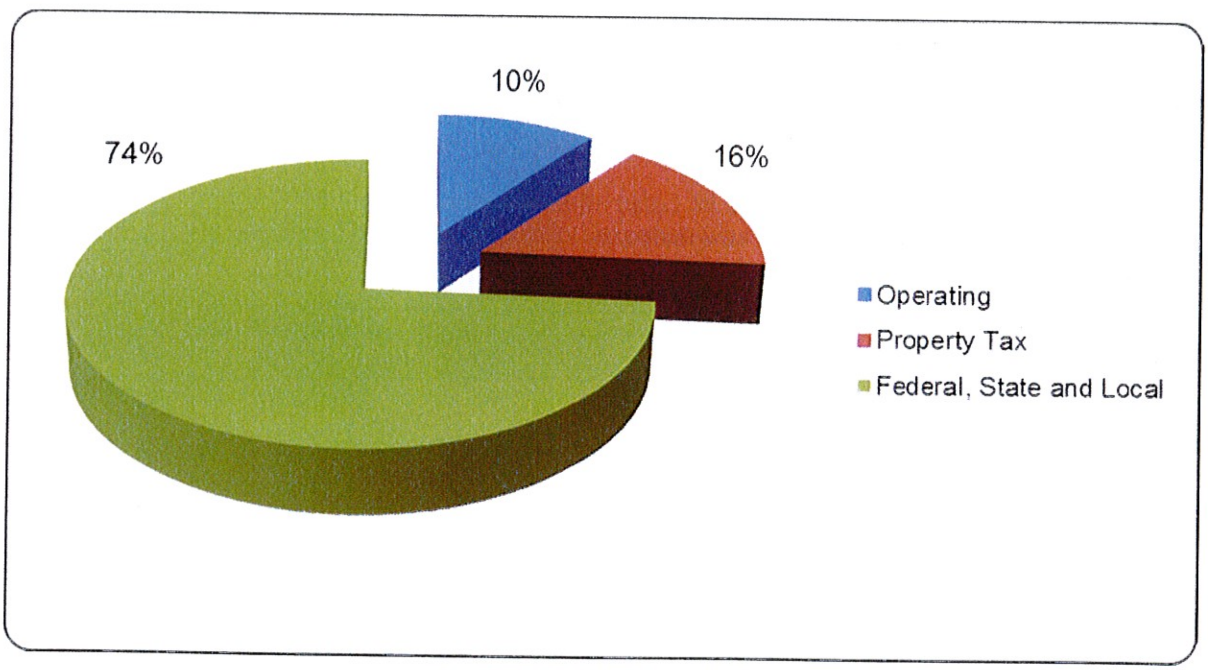
(Continued)

Changes in Net Position: For 2014 and 2013, revenue from GPTC activities was $7.8 million and $6.9 million, respectively, with related expenses of $6.5 million and $6.9 million. The increase in revenue was primarily due to Federal grant eligibility for bus purchases. The decrease in expenses was primarily due to management implementing cost changes to hold down expenditures.

Table 2: Condensed Statement of Revenue, Expenses and Changes in Net Position (in millions)

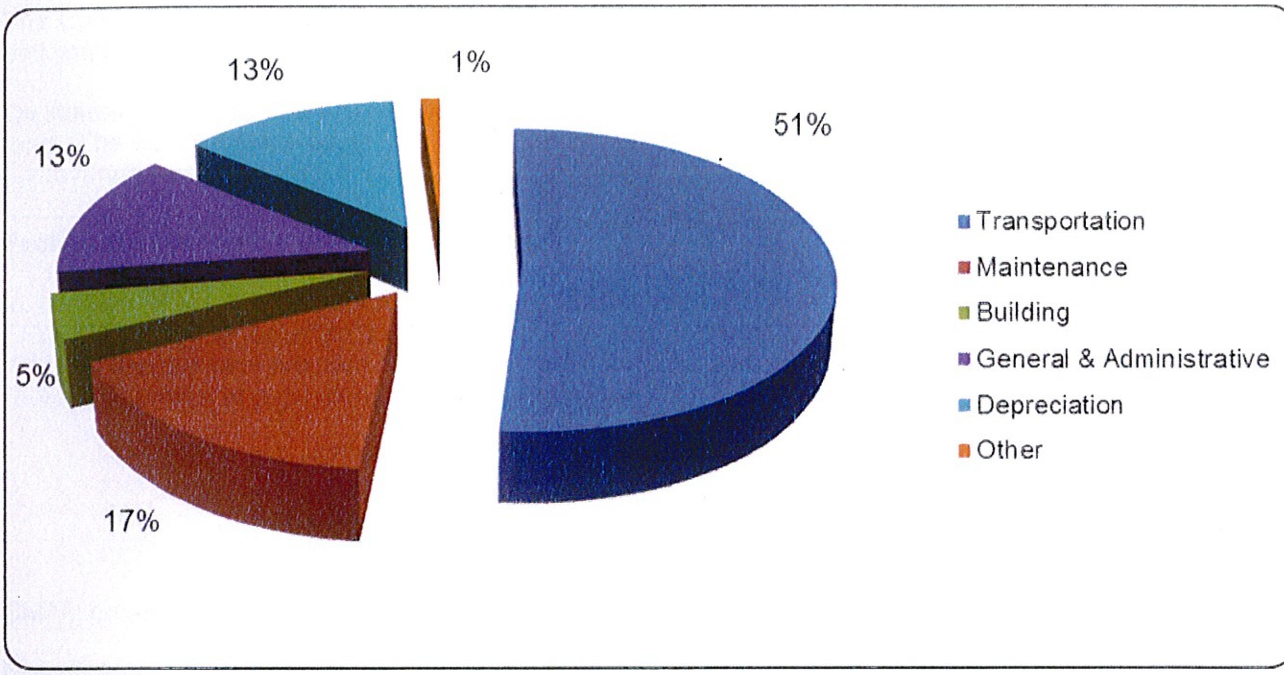
	2014	2013	Variance	% Variance
Revenues				
Operating revenues	$ 0.8	$ 0.8	$ -	0.0%
Non-operating revenues	7.0	6.1	0.9	14.8%
Total revenues	7.8	6.9	0.9	14.8%
Expenses				
Operating expenses	6.5	6.9	(0.4)	-5.8%
Total expenses	6.5	6.9	(0.4)	-5.8%
Change in net position	$ 1.3	$ -	$ 1.3	100.0%

2014 Revenues by Source: The following represents the primary funding sources for the Corporation (both operating and non-operating) for the year:



(Continued)

2014 Expenses by Function: The following represents a breakdown of total expenses (both operating and non-operating) for the year:



Capital Asset and Debt Administration

Capital assets

At the end of 2014 and 2013 the Corporation had invested $6.2 million and $5.7 million, respectively, net of accumulated depreciation. The total depreciation expense was $0.9 million for 2014 and $0.8 million for 2013.

Table 3: Capital Assets (in millions)

	2014	2013	Variance	% Variance
Capital Assets				
Land	$ 0.6	$ 0.6	$ -	0.0%
Construction in progress	0.1	0.1	-	0.0%
Building and improvements	14.6	14.6	-	0.0%
Revenue vehicles and equipment	11.5	10.4	1.1	10.6%
Service Vehicles and equipment	2.2	2.0	0.2	10.0%
Office furniture and equipment	1.6	1.5	0.10	6.7%
Total assets	$ 30.6	$ 29.2	$ 1.4	4.8%
Accumulated Depreciation	24.4	23.5	0.9	3.8%
Capital Assets, net	$ 6.2	$ 5.7	$ 0.5	8.8%

(Continued)

Short-term Debt

The Corporation also issues Tax Warrants on an annual basis to manage its cash flow requirements in anticipation of receiving tax revenues for the operating funds.

On January 2014, GPTC issued tax warrants in the amount of $373,395 which is payable from the operating fund. The warrants were issued at a 1.9% interest rate and were paid off in December 2014 with property tax revenue received during the year.

Factors Bearing on the Corporation's Future

In addition to a full complement of federally funded capital equipment and infrastructure projects for FFY2017, GPTC is expected to receive grant revenue from the Congestion Mitigation and Air Quality (CMAQ) Improvement program in the following amounts for operating and capital expenses related to the Broadway corridor at a compensation rate of 80%:

FFY2017	$ 627,411
FFY2018	$ 984,304
FFY2019	$ 1,033,518
FFY2020	$ 447,411

CMAQ project funds will be used for operating assistance and rolling stock acquisition.

Moving Ahead for Progress in the 21st Century (MAP-21) federal operating assistance funds in the amount of $711,478 are anticipated to be available by October 1, 2015 at a compensation rate of 50%. In addition, GPTC is expected to receive federal operating assistance grant revenue from the Job Access and Reverse Commute Program (JARC) 5307 program in the amount of $682,771 for the continuance of previously funded JARC activities. These funds are anticipated to be available by October 1, 2015.

Requests for Information

This financial report is designed to provide the Corporation's citizens, taxpayers, and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Finance Office at Gary Public Transportation Corporation, 100 West 4th Avenue, Third Floor, Gary, IN, 46402, (219) 885-7555.

GARY PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF NET POSITION
December 31, 2014

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 1,432,822
Federal and state grants receivable	291,038
Accounts receivable	27,552
Materials and supplies Inventory	143,331
Prepaid expenses	114,435
Total current assets	2,009,178
Other assets:	
Restricted cash and cash equivalents	30,245
Capital assets: (Note 3)	
Capital assets not being depreciated:	
Construction in progress	41,346
Land	631,331
Total capital assets not being depreciated	672,677
Depreciable capital assets:	
Building and improvements	14,593,315
Revenue vehicles and equipment	11,542,259
Service vehicles and equipment	2,247,747
Office furniture and equipment	1,558,474
	29,941,795
Less: Accumulated depreciation	(24,398,690)
Total depreciable capital assets, net	5,543,105
Total capital assets, net	6,215,782
Total assets	$ 8,255,205
LIABILITIES	
Liabilities:	
Accounts and other payables	$ 90,109
Accrued payroll liabilities	82,025
Total liabilities	172,134
Net position	
Net investment in capital assets	6,215,782
Restricted for capital projects	30,245
Unrestricted net position	1,837,044
Total net position	8,083,071
Total liabilities and net position	$ 8,255,205

See accompanying notes to financial statements.

GARY PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended December 31, 2014

Operating revenues	
Passenger	$ 768,951
Advertising	22,620
Total operating revenues	791,571
Operating expenses	
Transportation	3,318,090
Maintenance	1,073,004
Building	374,098
General and administrative	848,411
Depreciation and amortization	888,401
Total operating expenses	6,502,004
Operating (loss)	(5,710,433)
Nonoperating revenues (expenses) (Note 6)	
FTA federal grants	3,458,847
State operating assistance	990,763
Property tax	1,238,086
Local operating tax	72,938
Interest expense	(7,817)
Loss on disposal of capital assets	(8,848)
Other income	44,303
Total nonoperating revenues (expenses)	5,788,272
Net change before capital contributions	77,839
Capital contributions	1,187,346
Change in net position	1,265,185
Total net position, beginning of year	6,817,886
Total net position, end of year	$ 8,083,071

See accompanying notes to financial statements.

GARY PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2014

Cash flows from operating activities	
Cash received from fares	$ 772,496
Cash received from other operating activities	22,620
Payments to employees	(3,656,083)
Payments to suppliers and vendors	(2,674,233)
Net cash from operating activities	(5,535,200)
Cash flows from noncapital financing activities	
Repayment of tax anticipation warrants	(373,395)
Proceeds from tax anticipation warrants	373,395
Interest paid on tax anticipation warrants	(7,817)
Receipts of local government assessments and taxes	2,301,787
Other local support	949
Receipts of federal and state government grants and reimbursements	4,307,772
Net cash from noncapital financing activities	6,602,691
Cash flows from capital and related financing activities	
Purchase of capital assets	(1,449,220)
Proceeds from federal capital assistance grants	1,187,346
Net cash from capital and related financing activities	(261,874)
Net change in cash and cash equivalents	805,617
Cash and cash equivalents, beginning of year	657,450
Cash and cash equivalents, end of year	$ 1,463,067
Reconciliation of operating income to net cash from operating activities	
Operating (loss)	$ (5,710,433)
Adjustments to reconcile operating income (loss) to net cash from operating activities	
Depreciation and amortization	888,401
(Increase) decrease due to changes in:	
Accounts receivable	3,545
Materials and supplies inventory	648
Prepaid expense	(14,375)
Accounts payable	(703,108)
Accrued salaries	122
Net cash from operating activities	$ (5,535,200)
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 7,817
De-obligation of Metro Center payable	43,354

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Gary Public Transportation Corporation ("GPTC" or the "Corporation") is a municipal corporation formed in 1975 under the provisions of IC 19-5-2-10. GPTC was formed for the purpose of providing and maintaining continuing public transportation through a publicly owned urban mass transportation system. GPTC's mission is to become an efficient transit system capable of meeting the employment, social and medical needs of the citizens of Gary, Indiana as well as Northwest Indiana, while stimulating economic development within the City of Gary.

Reporting Entity: The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB). The statement requires that financial statements of the reporting entity include all of the organizations activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. Based upon the application of these criteria, no entities have been considered to be potential component units for the purpose of defining the Corporation's reporting entity.

Budgetary Information: Annual budgets are adopted on the cash basis of accounting, which is not consistent with U.S. GAAP. All annual appropriations lapse at calendar year end. Prior to the first required publication, the Controller of the Corporation submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution, approves the budget for the next year. Copies of the budget resolution and the advertisements for funds for which property taxes are levied are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the Controller receives approval of the Indiana Department of Local Government Finance.

The Corporation's management cannot transfer budgeted appropriations between classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund.

Basis of Accounting and Accounting Presentation: This summary of significant accounting policies is presented to assist in understanding GPTC's financial statements. The financial statements and accompanying notes are representations of GPTC's management who is responsible for their integrity and objectivity.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Type: GPTC operates as an Enterprise Fund, a type of Proprietary Fund. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

GPTC's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

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.

Operating and Non-operating Revenues and Expenses: The principal operating revenue of GPTC is passenger fares. GPTC also recognized as operating revenue the fees collected from advertisements of GPTC's property and miscellaneous operating revenues.

Operating expenses for GPTC include the costs of operating the transit system, administrative expenses, and depreciation on capital assets.

Non-operating revenues primarily include grants and tax revenue from federal, state, and local governments. On an accrual basis, revenue from grants is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements may include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and expenditure requirements, in which the resources are provided to the GPTC on a reimbursement basis.

It is GPTC's policy to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

Property Taxes: Property tax revenues are recognized in the year in which they are levied. Property taxes levied are collected by the County Treasurer and are distributed to the Corporation. The Corporation collects taxes after the due dates, usually within 45-90 days. State statue (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates are based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxes levied in one year become due and payable in two installments the following year. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Fare Box and Passenger Revenues: Fare box and pass revenues are recorded as revenue at the time services are performed and revenues pass through the fare box.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities when purchased of three months or less. Restricted cash represents funds remaining from the RBA for the purpose of vehicles purchases.

Grants and Accounts Receivable: No allowance for bad debts has been established because management considers all material receivables to be collectible.

Materials and Supplies Inventory: Inventory consists of parts and supplies and is valued at the lower of cost (first-in, first-out method) or market.

Capital Assets: Capital assets are stated at cost and are defined as assets which (1) have a useful life of more than one year and a unit cost of more than $5,000 (2) have a unit cost of $5,000 or less, but which are part of a network or system conversion or (3) have a unit cost of $1,000 and were purchased with grant money. The cost of maintenance and repairs is charged to operations as incurred. Depreciation is calculated under the straight-line method at amounts based on the respective estimated useful lives of major asset classifications, as follows:

Buildings and improvements	20 years
Revenue vehicles and equipment	7 - 12 years
Service vehicles and equipment	7 - 10 years
Office furniture and equipment	5 - 10 years

Compensated Absences: Substantially, 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 and are earned the year before they can be used. Unused vacation hours do not carry over unless specifically approved, but payments for unused vacation are due at the end of the vacation year for administrative staff. At December 31, 2014 the amount accruable for administrative staff was not deemed to be material.

Self-Insurance: The Corporation has a self-funded workmen compensation insurance, dental and vision plan. As of December 31, 2014 there were no accrued amounts for workmen's compensation, dental or vision pending claims in other current liabilities.

Net Position: Equity is displayed in three components as follows:

Net Investment in Capital Assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted - This consists of assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. For the government-wide financial statements, net position is reported as restricted when constraints placed on net position use are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This consists of assets that do not meet the definition of "restricted" or "Net investment in capital assets."

NOTE 2 - CASH AND CASH EQUIVALENTS

The Corporation maintains cash deposits with area financial institutions. A summary of these deposits at December 31, 2014 is as follows:

	Carrying Value	Bank Balance
Cash deposits:		
Insured by FDIC	$ 500,000	$ 500,000
Insured by Indiana Public Deposits Insurance Fund	963,067	1,076,007
	$ 1,463,067	$ 1,576,007

The Public Deposit Insurance Fund (PDIF) was created by the Acts of 1937 to protect the public funds of the state and its political subdivisions deposited in approved financial institutions. The PDIF insures those public funds deposited in approved financial institutions which exceed the limits of coverage provided by any federal deposit insurance. GPTC has funds deposited in PDIF approved financial institutions.

(Continued)

NOTE 3 - CAPITAL ASSETS, NET

A summary of changes in capital assets is as follows:

	1/1/2014	Additions	Transfers	Reductions	12/31/2014
Capital assets not being depreciated:					
Construction in progress	$ 146,769	$ -	$ (105,423)	$ -	$ 41,346
Land	631,331	-	-	-	631,331
Total capital assets not being depreciated	$ 778,100	$ -	$ (105,423)	$ -	$ 672,677
Capital assets being depreciated:					
Buildings and improvements	$ 14,575,818	$ 17,497	$ -	$ -	$ 14,593,315
Revenue vehicles and equipment	10,355,064	1,187,195	-	-	11,542,259
Service vehicles and equipment	2,003,219	244,528	-	-	2,247,747
Office furniture and equipment	1,461,899	-	105,423	(8,848)	1,558,474
Total capital assets being depreciated	28,396,000	1,449,220	105,423	(8,848)	29,941,795
Less accumulated depreciation:					
Buildings and improvements	(13,590,586)	(182,276)	-	-	(13,772,862)
Revenue vehicles and equipment	(7,172,902)	(558,318)	-	-	(7,731,220)
Service vehicles and equipment	(1,839,076)	(53,941)	-	-	(1,893,017)
Office furniture and equipment	(907,725)	(93,866)	-	-	(1,001,591)
Total accumulated depreciation	(23,510,289)	(888,401)	-	-	(24,398,690)
Total capital assets being depreciated, net	$ 4,885,711	$ 560,819	$ 105,423	$ (8,848)	$ 5,543,105
Total capital assets, net	$ 5,663,811	$ 560,819	$ -	$ (8,848)	$ 6,215,782

(Continued)

NOTE 4 - PENSION PLAN

The Corporation sponsors a defined contribution pension plan, covering all eligible salaried and hourly employees, known as the Gary Public Transportation Corporation Employee's Pension Plan and Trust. Niles Lankford Group is the third party administrator (the Plan Administrator) and Capital Bank and Trust is the custodian of the plan assets. The plan is part of an agreement with Division 517 of the Amalgamated Transit Union and the plan may be amended by mutual agreement of the parties, subject to approval by the Corporation. Under the terms of the plan, the Corporation is required to make monthly contributions, which vary depending on the length of service of employees as follows:

Years of Service	Monthly Contribution
Less than 10	$30
10 - 15	40
15 - 19	45
20 - 24	50
25 or more	60

Employees become vested after five years of continuous service with GPTC. Additionally, the Corporation contributes fifteen cents per payroll hour for full time employees with at least ten years of vested service. The contributions made by the Corporation amounted to $41,611 for the year ended December 31, 2014, in comparison to employee contributions totaling $42,010.

The plan administrator invests the plan's assets in several types of mutual funds. At December 31, 2014, the investments of the plan, at fair value, amounted to approximately $1,770,000. These assets are excluded from these financial statements. The plan is audited separately.

NOTE 5 - TEMPORARY LOAN TAX ANTICIPATION WARRANTS

In 2014, the Corporation entered into an agreement with the Indiana Bond Bank to obtain funding under a Temporary Tax Anticipation Warrant program. The warrant bore interest at 1.90% and was fully paid by December 31, 2014.

During the year ended December 31, 2014, the following changes occurred in temporary loan tax anticipation warrants:

	1/1/2014	Additions	Payments	12/31/2014
Tax Anticipation Warrants	$ -	$ 373,395	$ (373,395)	$ -

In January 2015, the Corporation received $421,410 of funding under a Temporary Tax Anticipation Warrant program with the Indiana Bond Bank. The warrant has an interest rate of 2.01% and is due by December 31, 2015.

(Continued)

NOTE 6 - FEDERAL, STATE AND LOCAL NON-OPERATING ASSISTANCE

Reduced fare subsidies received from the State of Indiana were $990,763 for December 31, 2014 for discounted services provided to the elderly, disabled, or student riders.

GPTC receives federal monies from the Department of Transportation (via FTA) under the Urbanized Area Formula grant. The grant is cost reimbursement based on projects and budgets preapproved. Once monies have been spent on preapproved projects, GPTC requests reimbursement. The FTA reimburses GPTC its proportionate share of the monies spent while GPTC is responsible for a local match. GPTC also received federal monies from the FTA through the American Recovery and Reinvestment Act of 2009 in which GPTC received a 100% federal match on qualifying expenditures.

Property tax revenue for 2014 was from a Lake County property tax levy with distributions to GPTC of $1,238,086 for operating assistance.

NOTE 7 - OPERATING LEASES

The Corporation leases tires for its fleet of buses through Goodyear. Amounts due on the lease are determined on an annual basis relative to actual usage. The lease expires in November 2015 with a one year option. Expenses related to this lease were approximately $43,000 in 2014.

NOTE 8 - RISK MANAGEMENT – CONTINGENCIES AND COMMITMENTS

Contingencies: Various claims and lawsuits arising from the normal course of business are pending against GPTC. The nature of GPTC's operations sometimes subjects the Corporation to litigation. General Counsel for GPTC is of the opinion that ultimate settlement of such claims in excess of insurance coverage will not result in a material adverse effect on GPTC's financial statements as of December 31, 2014. No liability is recorded as of December 31, 2014.

GPTC maintains coverage for general liability, property and casualty, employee accidents, environmental, business interruption, terrorism, and automotive liability losses arising from automotive liability, property, property-related business interruption, terrorism, employment-related suits, including discrimination and sexual harassment, and management liability of board members, directors, and officers of GPTC.

Also included are risks of loss associated with providing insured and self – insured health, dental, and life insurance benefits to employees and retirees. Premiums have been recorded as expenditures in the appropriate funds. GPTC provides health insurance benefits to employees through two fully insured health maintenance organizations PPO plan. GPTC provides dental insurance benefits through two fully insured dental maintenance organizations and a self-insured dental indemnity plan. GPTC does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. No material liabilities associated with the dental indemnity plan exist at December 31, 2014. Lastly, GPTC covers the cost of employee life insurance policies for both active and retired employees. Life insurance coverage limits are $15,000 for active and $3,500 for retired employees, and GPTC is obligated to cover the cost of the associated premiums.

Commitments: GPTC has reported that the Corporation has no material contractual commitments to fulfill as of December 31, 2014.

(Continued)

NOTE 9 - OTHER MATTERS

GPTC uses office space owned by the City of Gary. The use of the space is part of an operating agreement in exchange for GPTC services that includes collecting parking lot revenue and rent payments from the lessees at the Metro Center and making payments based on revenue collections to the various Metro Center vendors for utilities, security, janitorial and maintenance, and other related expenses. Any expense amounts in excess of the revenue collected from the Metro Center vendors are the responsibility of the City of Gary.

SUPPLEMENTARY SCHEDULES

	CFDA#	Expenditures
U.S. Department of Transportation:		
Federal Transportation Administration		
Direct Programs:		
Federal Transit Cluster:		
Urbanized Area Formula Program	20.507	$ 1,842,360
Urbanized Area Formula Program - CMAQ	20.507	1,840,049
Urbanized Area Formula Program – MAP21	20.507	601,969
Urbanized Area Formula Program – ARRA	20.507	6,750
Total Federal Transit Cluster		4,291,128
Transit Services Programs Cluster:		
Job Access – Reverse Commute	20.516	355,065
Total Expenditures of Federal Awards		$ 4,646,193

Basis of Presentation

The accompanying schedule of expenditures of federal awards for the year ended December 31, 2014 includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

INDEPENDENT AUDITOR'S 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
Gary Public Transportation Corporation
Gary, Indiana

We have audited, in accordance with the 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, the financial statements of Gary Public Transportation Corporation ("Corporation") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-01 to be a material weakness.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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.*

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's response and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 30, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Gary Public Transportation Corporation
Gary, Indiana

Report on Compliance for Each Major Federal Program

We have audited Gary Public Transportation Corporation's ("Corporation") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2014. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Corporation'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

(Continued)

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Corporation's internal control over compliance.

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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	X Yes	___ No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes	X None Reported
Noncompliance material to financial statements noted?	___ Yes	X No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes	X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	___ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
Federal Transit Cluster:	
20.507	Urbanized Area Formula Program
20.507	Urbanized Area Formula Program – ARRA
Transit Services Programs Cluster:	
20.516	Job Access – Reverse Commute

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee?	___ Yes	X No

(Continued)

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding 2014-01 - Controls Over Financial Reporting (Material Weakness)

Criteria: Auditing standards stress the importance of management implementing controls that are verifiable and that ensure that the financial statements are prepared in accordance with U.S. GAAP, as well as design and implement programs and controls to prevent and detect fraud. Special emphasis is placed on controls related to period end financial reporting, including those over the review and input of journal entries. Examples of control deficiencies from the auditing standards include:

Deficiencies in the Design of Controls

- Inadequate design of controls over the preparation of the financial statements being audited.
- Inadequate design of controls over a significant account or process.
- Insufficient control consciousness within the organization.
- Inadequate design of IT general and application controls that prevent the information system from providing complete and accurate information.
- Inadequate design of monitoring controls used to assess the design and operating effectiveness.

Failures in the Operation of Internal Control

- Failure in the operation of effectively designed controls over a significant account or process.
- Failure of the information and communication component of internal control to provide complete and accurate output because of deficiencies in timeliness, completeness, or accuracy.
- Failure to perform reconciliations of significant accounts.
- Management override of controls.

Statement of Condition: Statement on Auditing Standards (SAS) No. 115 *"Communicating Internal Control Related Matters Identified in an Audit"*, clarifies management's responsibility to have internal controls in place to apply appropriate accounting principles and provide information to produce the year-end annual report in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). While management is not required to prepare the annual report, management does need to demonstrate the level of qualifications and controls to prepare and review the report without significant deficiencies or material weaknesses in these controls. During our audit, we note control deficiencies related to financial reporting that we consider in the aggregate to be a material weakness.

The individual control deficiencies, aggregated and reported as a material weakness include:

1. **Financial Statement Preparation** - During our audit, we concluded that management did not have appropriate internal controls over the financial reporting processes and general ledger accounting system to adequately prepare the financial statements without material audit adjustments. GPTC's general ledger system (RDS), as it exists, has some functional limitations that inhibits management's ability to effectively input, review, reconcile and develop useful financial reports to conduct a thorough review of periodic activity and prepare U.S. GAAP basis financial statements.

   The current accounting system may not be compatible to meet the Corporation's long term needs for financial reporting. There were current period audit adjustments recommended that changed the financial results by material amounts.

SECTION II - FINANCIAL STATEMENTS FINDINGS (Continued)

Questioned Cost: Not Applicable.

Context:

1. **Financial Statement Preparation** –Material adjusting journal entries were made to the financial statements related to federal grants receivable and revenue, payables, expenses, capital assets beginning net position, and to correct a trial balance error. The lack of access to detailed general ledger activity and changes in balances in the accounting system contributed to management not being able to identify year-end adjustments necessary and the recording of audit adjustments.

Effect: Internal periodic financial statements may not be presented consistent with U.S. GAAP.

Cause: Accounting system limitations and turnover at key financial positions. GPTC engaged an advisor to assist with year-end accounting and financial reporting to mitigate financial reporting risks related to staff departures. However, system limitations reduced the effectiveness of the processes with the new financial director.

Recommendation: Our recommendations for the deficiency noted above are as follows:

1. **Financial Statement Preparation**: In the short-term, while GPTC selects and implements a new accounting system, we recommend that management implement a standard protocol for monthly general ledger closing and account reconciliation process to prepare internal financial statements on a U.S. GAAP basis. The internal financial statements and detailed account reconciliations should be independently reviewed and approved monthly.

Views of Responsible Officials and Planned Corrective Action:
Financial Statement Preparation – Executive management at GPTC has confidence of control over the recording information process, however, due to the limitation of the RDS system certain general ledger reports do not automatically transfer to the appropriate accounts through the accounting system. Executive management at GPTC has updated its policy and procedures related to the Financial Statement Preparation and standard protocol for the monthly general ledger closing and accounts reconciliation process to prepare internal financial statements. The adjustments will take place at the beginning of month for the preceding month financial period. In other words, any adjustments for the prior month will be processed in that month. All adjustments are journalized in its proper category and coding type for each transaction. This is done to ensure all transactions are properly coded and are recorded correctly. Each journal entry is reviewed and approved by the staff accountant and/ Controller to ensure accuracy and completeness of data entry into the AS400 during our month-end closing or routine operations. GPTC has closed the bidding process and in the process of selecting a vendor for updated industry software, the associated hardware to enable processing the increased memory intensive program utilization of file activity. And, implementation of a changed network to create an increased interactive, secure environment, and converting its current accounting system to the current industry standard accounting software system.

As noted the controller left the agency in May 2014 with the position being vacant over 5-6 months during 2014. The lack of activity in the RDS system resulted in FY 2014 financial records not being completely processed, and FY 2013 financial records not closed. This caused significant ongoing account analysis, reconciliation, and transaction processing problems which were exacerbated, and not resolved with the inclusion of the external accounting consultants. On top of accounting systems, a contributing challenge has been retention of employees in the finance department. The Controller's position was not filled until the fourth quarter of fiscal year 2014. The standard operating procedures in the finance department has been updated to enhance protocol for monthly general closing and account reconciliation process to prepare internal financial statements.

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

There were no findings for the year ended December 31, 2014.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Findings related to the financial statements that are required to be reported in accordance with GAGAS

Finding 2013-01 - Controls Over Financial Reporting (Material Weakness)

Statement of Condition: While management improved on documenting a variety of financial reporting processes, including addressing controls there were still a number of adjusting journal entries necessary to complete the financial statements.

Action Taken by Management: Management has taken significant steps to address the financial reporting issue, however, additional steps are needed to ensure the financials are prepared appropriately under the appropriate financial reporting standards.

Status: See finding 2014-01