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November 3, 2016

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, 2013 to December 31, 2013. 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 Indianapolis Public Transportation Corporation, as of December 31, 2013 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call to your attention the three findings of material weaknesses in internal control over financial reporting 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.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

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

FINANCIAL STATEMENTS

December 31, 2013

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

FINANCIAL STATEMENTS
December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Indianapolis Public Transportation Corporation
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of the 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 and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise IPTC'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 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, and the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. 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 IPTC, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the that the Management's Discussion and Analysis on pages 3 through 9 and the Schedule of Funding Progress on page 31, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise IPTC's financial statements. The 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 are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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 June 19, 2014 on our consideration of IPTC'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 IPTC's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2013

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, 2013. 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, 2013 by \$66 million (net position). Of this amount, \$13 million (unrestricted net position) may be used to meet IPTC's ongoing obligations arising from providing transportation service to the community.
- Fare revenues for 2013 increased 1 percent over that of the prior year.
- FTA capital contributions for 2013 decreased 24 percent from that of the prior year.
- FTA local operating and planning grants and preventative maintenance funding for 2013 decreased by 11 percent under that of the prior year.
- Operating expenses before depreciation increased 10.6 percent from the prior year.
- Net position increased approximately \$3.7 million, or 6 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 Position. All assets and liabilities associated with the operation of the IPTC are included in the Statement of Net Position.

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, 2013

FINANCIAL STATEMENT ANALYSIS

Net Position

The IPTC's total assets at December 31, 2013 were approximately \$80 million. This represents a decrease of approximately 2 percent from the prior year. Liabilities approximated \$14 million, a decrease of 28 percent for 2013. The overall decrease in liabilities is attributed to payment of ongoing obligations with a net decrease in debt for the year.

Approximately \$36 million, or 55 percent, of the net position reflects investments in capital assets, less related debt. Approximately \$16 million, or 25 percent, of the net position is restricted for the future acquisition of capital assets. Approximately \$14 million, or 20 percent, may be used to meet IPTC's ongoing obligations arising from providing transportation services to the community.

TABLE 1 - NET POSITION

	<u>2013</u>	<u>2012</u>
Assets:		
Current assets	\$ 22,927,122	\$ 23,510,542
Capital assets (net)	40,880,339	39,771,786
Other non-current assets	16,407,920	18,771,692
Total Assets	<u>\$ 80,215,381</u>	<u>\$ 82,054,020</u>
Liabilities:		
Current liabilities	\$ 8,085,703	\$ 13,538,789
Non-current liabilities	6,349,360	6,471,820
Total liabilities	<u>14,435,063</u>	<u>20,010,609</u>
Net position:		
Net investment in capital assets	36,110,326	33,289,266
Restricted	16,092,365	18,281,252
Unrestricted	13,577,627	10,472,893
Total net position	<u>65,780,318</u>	<u>62,043,411</u>
Total liabilities and net position	<u>\$ 80,215,381</u>	<u>\$ 82,054,020</u>

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2013

Changes in Net Position

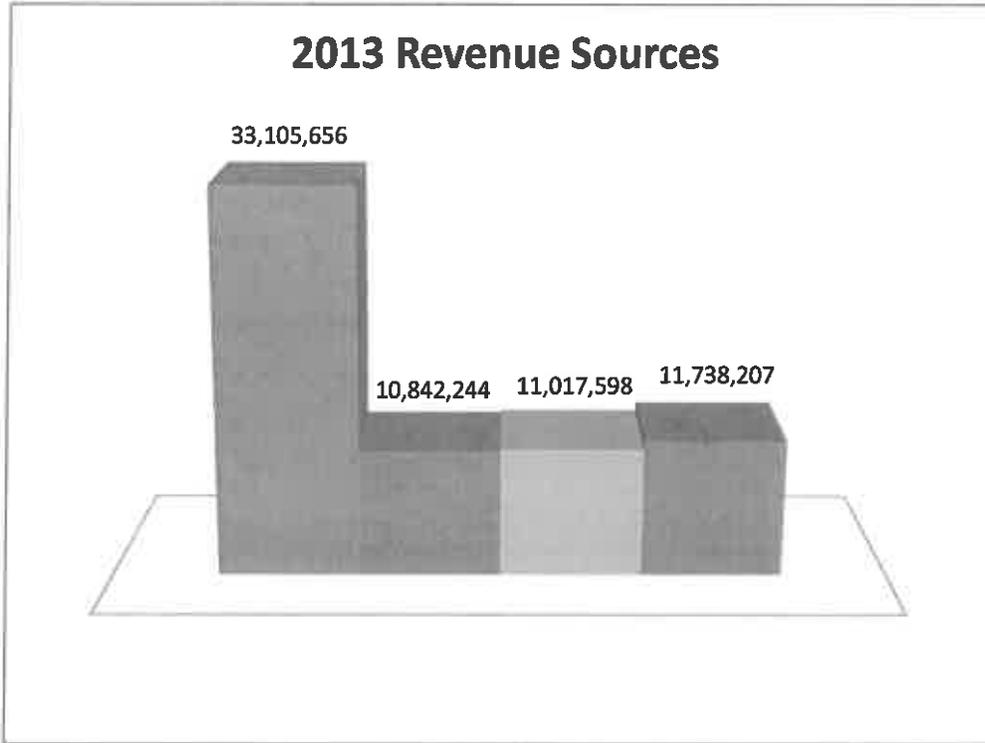
The change in net position for 2013 represents an increase of approximately \$3.7 million, or 6 percent. Of this amount, total revenues increased approximately \$3.8 million, or 6 percent. This increase is mainly attributed to a \$6 million increase, or 22 percent, in property tax and excise tax, a \$1.3 million decrease, or 10 percent, in federal assistance, and an \$874,000 decrease, or 24 percent, in capital grants. Overall operating expenses, excluding depreciation increased \$5.6 million, or 11 percent. This increase is attributed to an increase in bus service in 2013.

TABLE 2 - CHANGES IN NET POSITION

	<u>2013</u>	<u>2012</u>
Operating revenues		
Passenger fares	\$ 11,354,576	\$ 11,266,129
Advertising	383,631	394,991
Total operating revenues	<u>11,738,207</u>	<u>11,661,120</u>
Non-operating revenues (expenses)		
Property and excise tax	33,105,656	27,029,782
Municipalities	10,842,244	10,883,600
FTA Assistance	11,017,598	12,320,606
Contributions – capital grants	2,836,387	3,710,587
Other net revenues (expenses)	<u>(134,156)</u>	<u>32,003</u>
Total non-operating revenues	<u>57,667,729</u>	<u>53,976,578</u>
Total revenues	69,405,936	65,637,698
Operating expenses		
Transportation	32,834,958	28,619,510
Maintenance of equipment, including fuel	17,848,345	15,434,962
Administrative and general	6,331,544	6,915,103
Claims and insurance	1,360,223	1,800,777
Depreciation	<u>7,293,959</u>	<u>8,253,598</u>
Total operating expenses	<u>65,669,029</u>	<u>61,023,950</u>
Change in net position	3,736,907	4,613,748
Total net position, beginning of year	<u>62,043,411</u>	<u>57,429,663</u>
Total net position, end of year	<u>\$ 65,780,318</u>	<u>\$ 62,043,411</u>

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2013

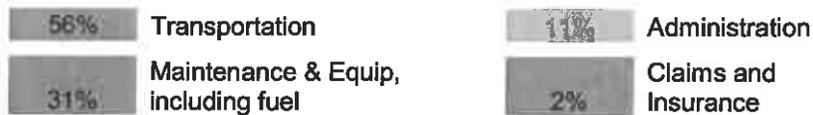
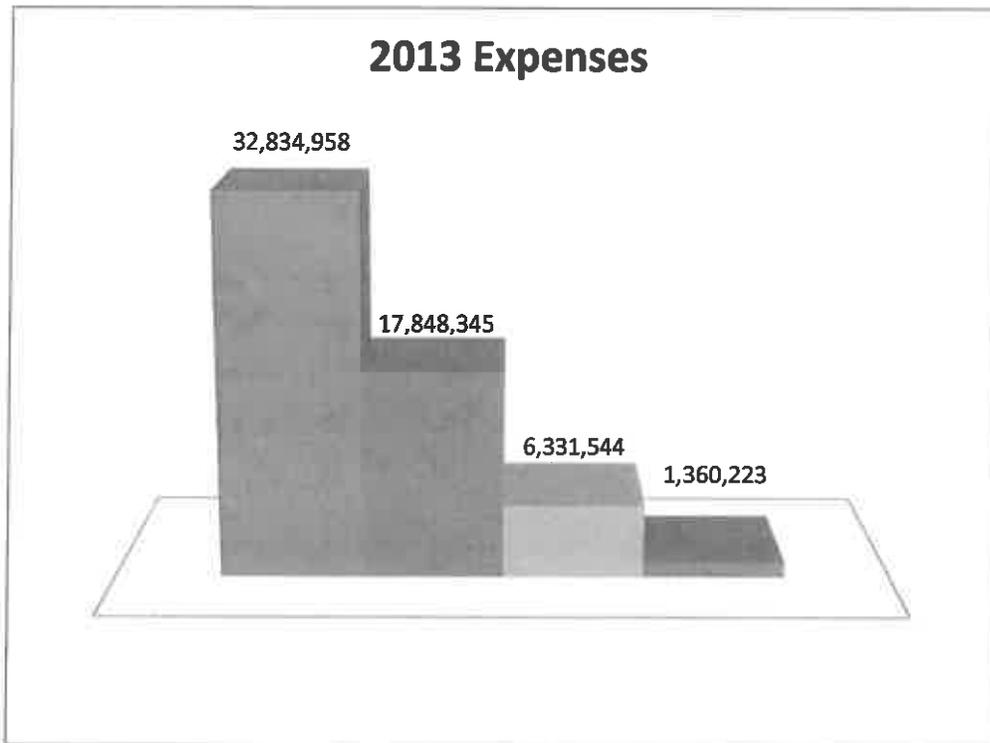
Revenues: For 2013, total operating revenues increased approximately \$77,000, or 0.7 percent. Non-operating revenue, excluding capital grant contributions and other revenue (expenses), increased by approximately \$4.7 million, or 9.3 percent.



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, 2013

Expenses: Total operating expenses, excluding depreciation, are approximately \$58 million for 2013. This is an increase of \$5.6 million, or 11 percent from prior year. This increase is attributed to increased service added in 2013.



The expenses and percentages presented exclude "depreciation" expense.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

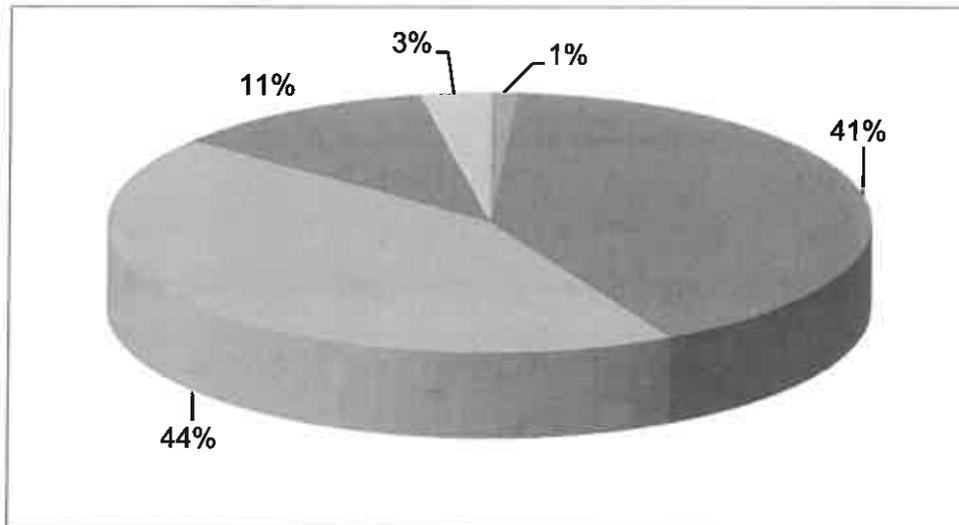
Capital Assets

As of December 31, 2013, IPTC had invested approximately \$40.9 million in capital assets, net of accumulated depreciation. Compared to the prior year, this amount represents an increase of approximately \$1.1 million. Capital acquisitions for the year were about \$8.4 million with retirements of about \$9.1 million. 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 2013 included 25 used coaches, 10 remanufactured articulated buses, and 4 new diesel coaches at a combined cost of approximately \$6.6 million.

Percentage allocation invested in capital assets:



INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2013

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 2011, 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. IPTC has signed a contract and has started the preliminary site and design work for the downtown Transit Center.

Debt Disclosures

As of December 31, 2013, IPTC had approximately \$6 million of notes and bonds payable. During 2013, bonds and notes payable were repaid pursuant to the maturity schedule of each issue. As of December 31, 2013, 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.

FINANCIAL STATEMENTS

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
STATEMENT OF NET POSITION
December 31, 2013

ASSETS

Current assets

Cash and cash equivalents (Note 2):	
Working capital	\$ 13,740,603
Liability reserve accounts	<u>2,014,108</u>
Total cash and cash equivalents	15,754,711
Receivables:	
Federal grants	3,030,483
Operations receivables, net	<u>432,276</u>
Total receivables	3,462,759
Other current assets:	
Materials and supplies inventory, net	2,801,316
Deposits and prepaid expenses	<u>908,336</u>
Total other current assets	<u>3,709,652</u>
Total current assets	<u>22,927,122</u>

Noncurrent assets

Restricted Cash – Capital asset acquisition	8,816,918
Restricted Investments – Capital asset acquisition (Note 2)	7,275,447
Net other post-employment benefit asset (Note 10)	315,555
Capital assets (Note 3):	
Non-depreciable assets:	
Land	1,375,654
Construction in progress	<u>3,771,654</u>
Total non-depreciable assets	5,417,308
Depreciable assets:	
Buildings and improvements	51,360,458
Revenue vehicles and equipment	54,511,583
Other equipment	<u>14,004,850</u>
Total depreciable assets	<u>119,876,591</u>
Total capital assets	125,023,899
Accumulated depreciation	<u>(84,143,560)</u>
Capital assets, net of depreciation	<u>40,880,339</u>
Total noncurrent assets	<u>57,288,259</u>
Total assets	<u>\$ 80,215,381</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 NET POSITION
December 31, 2013

LIABILITIES AND NET POSITION

Current liabilities

Accounts and contract services payable	\$ 3,960,467
Accrued payroll and benefits	1,162,124
Unearned fare revenue	328,115
Notes payable (Note 4)	212,080
Bonds payable (Note 4)	1,750,000
Risk management – unpaid claim estimates (Note 5)	348,417
Federal grantor reimbursement payable	189,500
Pension arbitration liability (Note 9)	135,000
Environmental remediation liability (Note 8)	-
Total current liabilities	8,085,703

Noncurrent liabilities

Notes payable (Note 4)	1,337,340
Bonds payable, net of premium (Note 4)	3,020,013
Risk management – unpaid claim estimate (Note 5)	31,000
Pension arbitration liability (Note 9)	135,000
Environmental remediation liability (Note 8)	1,826,007
Total noncurrent liabilities	6,349,360
Total liabilities	14,435,063

Net position

Net investment in capital assets	36,110,326
Restricted for capital assets acquisition	16,092,365
Unrestricted	13,577,627
Total net position	65,780,318
Total liabilities and net position	\$ 80,215,381

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 POSITION
Year ended December 31, 2013

Operating revenues	
Passenger fares	\$ 11,354,576
Advertising	<u>383,631</u>
Total operating revenues	<u>11,738,207</u>
Operating expenses	
Transportation	32,834,958
Maintenance of equipment, including fuel	17,848,345
Administrative and general	6,331,544
Claims and insurance	1,360,223
Depreciation	<u>7,293,959</u>
Total operating expenses	<u>65,669,029</u>
Operating loss	(53,930,822)
Non-operating revenues (expenses)	
Operating assistance:	
Property and excise tax	33,105,656
Municipalities	10,842,244
FTA and local operating and planning grants, and preventative maintenance funding	11,017,598
Other net revenues (expenses) (Note 7)	<u>(134,156)</u>
Total non-operating revenue	<u>54,831,342</u>
Change in net position before capital contribution	900,520
Contributions - capital grants	<u>2,836,387</u>
Change in net position	3,736,907
Net position, beginning of year	<u>62,043,411</u>
Net position, end of year	<u>\$ 65,780,318</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, 2013

Cash flows from operating activities	
Receipts from customers	\$ 11,704,112
Payments for transportation	(32,834,958)
Payments for maintenance of equipment, including fuel	(17,214,699)
Payments for administrative and general	(6,485,564)
Claims and insurance paid to external parties	(1,618,647)
Net cash used by operating activities	<u>(46,449,756)</u>
Cash flows from noncapital financing activities	
Property and excise tax distributions	33,105,656
Assistance from municipalities	10,842,244
FTA operating assistance	12,253,476
Principal paid on notes payable	(5,000,000)
Interest paid on notes payable	(92,612)
Net cash provided by noncapital financing activities	<u>51,108,764</u>
Cash flows from capital and related financing activities	
Capital grant receipts	3,872,881
Purchases of capital assets	(8,112,583)
Proceeds on sale of capital assets	105,000
Principal paid on debt	(1,665,000)
Interest paid on debt	(187,118)
Net cash used by capital and related financing activities	<u>(5,986,820)</u>
Cash flows from investing activities	
Purchases of investments	(4,689,705)
Proceeds from sale of investments	3,533,758
Interest received on cash and cash equivalents	103,208
Net cash provided by investing activities	<u>(1,052,739)</u>
Net decrease in cash and cash equivalents	(2,380,551)
Cash and cash equivalents, beginning of year	<u>26,952,180</u>
Cash and cash equivalents, end of year	<u>\$ 24,571,629</u>
Statement of Net Position Presentation:	
Cash and cash equivalents – current assets	\$ 15,754,711
Cash – noncurrent assets	<u>8,816,918</u>
Cash and cash equivalents, end of year	<u>\$ 24,571,629</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, 2013

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

Operating loss	\$ (53,930,822)
Adjustments to reconcile loss to net cash and cash equivalents:	
Depreciation expense	7,293,959
Changes in assets and liabilities:	
Other receivables	(2,270)
Materials and supplies inventory	(484,431)
Deposits and prepaid expense	(516,461)
Other post-employment benefit asset	(19,020)
Accounts and contract services payable	1,954,992
Accrued payroll and benefits	(320,454)
Unearned fare revenue	(31,825)
Risk management	(258,424)
Pension arbitration liability	<u>(135,000)</u>
Net cash used by operating activities	<u>\$ (46,449,756)</u>

**Supplemental schedule of noncash investing
and financing activities:**

Capital assets in accounts payable	\$ 377,978
Forgiveness of debt	102,696

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, 2013

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) Statements No. 14 and No. 61 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, tax levy, and the issuance of debt. In addition, the Council approves the budget, tax levy, and the issuance of debt.

Basis of Accounting: The operations of IPTC are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of IPTC are included in the Statement of Net Position. The principal operating revenues of IPTC are passenger fares. IPTC also recognizes as operating revenue the fees collected from advertisements on IPTC property and miscellaneous operating revenues. Operating expenses for IPTC include the costs of operating the transit system, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. IPTC's policy is to apply externally restricted funds first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. IPTC follows GASB pronouncements as codified under GASB 62.

IPTC adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective on January 1, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Bond issue costs, previously reported as an asset, were deemed to not be material and as a result were fully expensed in the amount of \$193,905 during 2013.

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 (GAAP) 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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013, cash equivalents consisted of demand and money market deposit accounts.

Receivables: Management has recorded an allowance of \$10,000 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.

Restricted Assets: Certain cash, cash equivalents and investment balances are restricted as follows:

- **Capital Asset Acquisition Accounts:** Proceeds from the sale of the Indianapolis Local Public Improvement Bond Bank Bonds, Series 2011C and Series 2012C 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.

Investments: 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.

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. 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

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position: GASB Statement 34 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These net position classifications are defined as follows:

- **Net investment in capital assets** - This component consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component consists of external constraints placed on net position imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. IPTC has restricted net position for capital asset acquisition. If both restricted and unrestricted resources are to be used for the same purpose, restricted resources will be applied first.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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.

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.

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 and vested 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 non-vesting 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.

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INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commitments: IPTC entered into fixed unit cost fuel contracts for the purchase of 1,110,000 gallons of fuel. Total fuel cost commitment under these contracts was \$3,385,908 at December 31, 2013.

At December 31, 2013, IPTC entered into a commitment not to exceed \$1.587 million for the purchase of fleet oil and lubricants.

At December 31, 2013, IPTC entered into commitments not to exceed \$2.975 million for bus shelter, sign service work, and telecommunication upgrades.

At December 31, 2013, IPTC entered into commitments not to exceed \$3.833 million for bus restoration, hybrid bus purchases, and wheelchair accessible mobility vehicle purchases.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2013, to determine the need for any adjustments or disclosures to the audited financial statement for the year ended December 31, 2013. Management has performed their analysis through June 19, 2014, the date the financial statement was available to be issued.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments are reported in the accompanying statements of net position as of December 31, 2013 as follows:

	<u>2013</u>
Current assets	
Cash and cash equivalents	
Working capital	\$ 13,740,603
Liability reserve	2,014,108
Noncurrent assets:	
Restricted Cash – Capital asset acquisition	8,816,918
Restricted Investments – Capital asset acquisition	<u>7,275,447</u>
	<u>\$ 31,847,076</u>
Cash and cash equivalents	\$ 24,571,629
Investments	<u>7,275,447</u>
	<u>\$ 31,847,076</u>

Deposits: IPTC maintains cash and cash equivalents deposits with area financial institutions. A summary of these deposits at December 31, 2013 is as follows:

	<u>2013</u>	
	<u>Carrying Value</u>	<u>Bank Balance</u>
On hand	\$ 1,300	\$ -
Cash deposits:		
Insured by FDIC	1,747,363	1,747,427
Insured by Indiana Public Deposits Insurance Fund	<u>22,822,966</u>	<u>22,616,004</u>
	<u>\$ 24,571,629</u>	<u>\$ 24,363,431</u>

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NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

During the year ended December 31, 2013, IPTC held interest bearing demand deposit accounts and interest bearing savings accounts with Indiana financial institutions. Demand deposits are fully insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposits Insurance Fund.

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

Investment Policy and Legal and Contractual Provisions Governing Cash Deposits and 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. IPTC does not have specific investment policies on interest rate risk, credit risk, concentration of credit risk, custodial credit risk, or foreign currency risk.

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. At December 31, 2013, IPTC had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>----- Maturities (in Years) -----</u>	
		<u>Less than 1</u>	<u>1 - 5</u>
Certificates of Deposit	\$ 2,509,958	\$ 1,012,138	\$ 1,497,820
Government-backed Mortgage Notes	<u>4,765,489</u>	<u>175,644</u>	<u>4,589,845</u>
	<u>\$ 7,275,447</u>	<u>\$ 1,187,782</u>	<u>\$ 6,087,665</u>

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. At December 31, 2013, the IPTC's investments, along with their respective ratings from Moody's Investor Services, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Certificates of Deposit	\$ 2,509,958	Unrated
Government-backed Mortgage Notes	<u>4,765,489</u>	Aaa
	<u>\$ 7,275,447</u>	

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NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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 places no limit on the amount IPTC may invest in any one issuer. The following table shows investment in issuers and the representative percentage of total investments at December 31, 2013:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% (rounded)</u>
Certificates of Deposit:		
BMW Bank North America	\$ 249,578	3.4%
Discover Bank	251,343	3.5%
GE Capital Bank	248,958	3.4%
Goldman Sachs Bank USA New York	250,120	3.4%
Key Bank	249,178	3.4%
Medallion Bank Utah	249,923	3.4%
Merrick Bank	249,388	3.4%
National Bank of Indianapolis	512,092	7.0%
Synovus Bank Georgia	249,378	3.4%
Government-back Mortgage Notes:		
Fannie Mae	3,736,774	51.5%
Freddie Mac	<u>1,028,715</u>	14.2%
	<u>\$ 7,275,447</u>	

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.

NOTE 3 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets as follows:

	Balance January 1, <u>2013</u>	<u>Changes During Year</u>		Balance December 31, <u>2013</u>
		<u>Additions</u>	<u>Reductions</u>	
<u>Capital Assets Cost:</u>				
<u>Non-Depreciable Assets:</u>				
Land	\$ 1,375,654	\$ -	\$ -	\$ 1,375,654
Construction in progress*	<u>543,809</u>	<u>8,402,511</u>	<u>(5,174,666)</u>	<u>3,771,654</u>
	1,919,463	8,402,411	(5,174,666)	5,147,308
<u>Depreciable Assets:</u>				
Buildings and improvements	50,935,090	425,368	-	51,360,458
Revenue vehicles and equipment	59,268,916	4,383,314	(9,140,947)	54,511,283
Other equipment	<u>13,638,865</u>	<u>365,985</u>	<u>-</u>	<u>14,004,850</u>
	<u>123,842,871</u>	<u>5,174,667</u>	<u>(9,140,947)</u>	<u>119,876,591</u>
	<u>\$ 125,762,334</u>	<u>\$ 13,577,178</u>	<u>\$ (14,315,613)</u>	<u>\$ 125,023,899</u>

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NOTE 3 - CHANGES IN CAPITAL ASSETS (Continued)

	Balance January 1, <u>2013</u>	<u>Changes During Year</u>		Balance December 31, <u>2013</u>
		<u>Additions</u>	<u>Reductions</u>	
<u>Accumulated Depreciation:</u>				
<u>Depreciable Assets:</u>				
Buildings and improvements	\$ (33,850,360)	\$ (2,497,729)	\$ -	\$ (36,348,089)
Revenue vehicles and equipment	(41,458,928)	(3,234,988)	9,140,947	(35,552,969)
Other equipment	<u>(10,681,260)</u>	<u>(1,561,242)</u>	<u>-</u>	<u>(12,242,502)</u>
	<u>\$ (85,990,548)</u>	<u>\$ (7,293,959)</u>	<u>\$ 9,140,947</u>	<u>\$ (84,143,560)</u>
	Balance January 1, <u>2013</u>	<u>Changes During Year</u>		Balance December 31, <u>2013</u>
		<u>Additions</u>	<u>Reductions</u>	
<u>Capital Assets, Net:</u>				
<u>Non-Depreciable Assets:</u>				
Land	\$ 1,375,654	\$ -	\$ -	\$ 1,375,654
Construction in progress*	<u>543,809</u>	<u>8,402,511</u>	<u>(5,174,666)</u>	<u>3,771,654</u>
	1,919,463	8,402,511	(5,174,666)	5,147,308
<u>Depreciable Assets:</u>				
Buildings and improvements	17,084,730	(2,072,361)	-	15,012,369
Revenue vehicles and equipment	17,809,988	1,148,326	-	18,958,314
Other equipment	<u>2,957,605</u>	<u>(1,195,257)</u>	<u>-</u>	<u>1,762,348</u>
	<u>37,852,323</u>	<u>(2,119,294)</u>	<u>-</u>	<u>35,733,031</u>
	<u>\$ 39,771,786</u>	<u>\$ 6,283,217</u>	<u>\$ (5,174,666)</u>	<u>\$ 40,880,339</u>

*Construction in progress also includes capital assets not placed in service such as revenue vehicles and equipment.

NOTE 4 - DEBT OBLIGATIONS

The following disclosure provides detail on IPTC debt obligations. At December 31, 2013, IPTC noncurrent debt consisted of bonds payable and notes payable. Changes were as follows:

	Balance January 1, <u>2013</u>	<u>Changes During Year</u>		Balance December 31, <u>2013</u>	<u>Noncurrent</u>	<u>Current</u>
		<u>Additions</u>	<u>Reductions</u>			
Bonds payable	\$ 6,340,000	\$ -	\$ (1,665,000)	\$ 4,675,000	\$ 2,925,000	\$ 1,750,000
Bond premium	142,520	-	(47,507)	95,013	95,013	-
Notes payable	<u>6,621,748</u>	<u>30,368</u>	<u>(5,102,696)</u>	<u>1,549,420</u>	<u>1,337,340</u>	<u>212,080</u>
	<u>\$ 13,104,268</u>	<u>\$ 30,368</u>	<u>\$ (6,815,203)</u>	<u>\$ 6,319,433</u>	<u>\$ 4,357,353</u>	<u>\$ 1,962,080</u>

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NOTE 4 - DEBT OBLIGATIONS (Continued)

Bonds Payable: Bonds consist of the Indianapolis Local Public Improvement Bond Bank Bonds, Series 2009C and 2012A. The amounts outstanding at December 31, 2013 are as follows:

	<u>2013</u>
Series 2009C	\$ 2,290,000
Series 2012A	<u>2,385,000</u>
Less: Current portion	<u>(1,750,000)</u>
Noncurrent portion	<u>\$ 2,925,000</u>

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%, payable on January 10 and July 10 commencing January 10, 2010 and have serial maturities through 2015. 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>
2014	\$ 1,415,000	\$ 91,600	\$ 1,506,600
2015	<u>875,000</u>	<u>35,000</u>	<u>910,000</u>
	<u>\$ 2,290,000</u>	<u>\$ 126,600</u>	<u>\$ 2,416,600</u>

Bond interest expense on Series 2009C Bonds was \$131,050 for the year ended December 31, 2013.

Series 2012A Bonds - The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2012A, dated February 15, 2012, were issued in the aggregate principal amount of \$3,100,000. The Series 2012A Bonds proceeds were used to redeem Series 2002C Bonds in 2012. The Series 2012A Bonds bear interest at 2.05%, payable on January 10 and July 10 commencing July 10, 2012 and have serial maturities from 2012 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>
2014	\$ 335,000	\$ 48,893	\$ 383,893
2015	370,000	42,025	412,025
2016	<u>1,680,000</u>	<u>34,440</u>	<u>1,714,440</u>
	<u>\$ 2,385,000</u>	<u>\$ 125,358</u>	<u>\$ 2,510,358</u>

Bond interest expense on Series 2012A Bonds was \$56,068 for the year ended December 31, 2013.

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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 had 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. Interest expense on this obligation was \$107,710 for the year ended December 31, 2013. The notes were paid off in December 2013 at the end of the term of the agreement.

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 was 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.

During 2010, 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 including investing in capital assets that are mutually beneficial to the City of Indianapolis and IPTC and providing tickets for City employees and beneficiaries of City programs.

The agreement has been amended in previous years to extend the maturity date. In 2013, the amendment extended the maturity date of the loan to December 31, 2015. Management estimates the reduction of the loan to be \$212,080 in 2013 and \$1,337,340 in 2015.

Interest expense for the year ended December 31, 2013 was \$30,368 and has been accrued in the balance of the loan. During 2013, IPTC paid expenditures totaling \$31,183 for the completion of improvement projects and provided \$71,513 of tickets for the benefit of the City of Indianapolis. The balance of the loan at December 31, 2013 was \$1,549,420.

Subsequent to December 31, 2013, IPTC entered into a \$7 million line of credit agreement to fund future operating costs. The loan matures on December 31, 2015. Interest on the loan is payable upon maturity at a rate of 30-day LIBOR plus 0.75%.

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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, 2013 and 2012 was as follows:

	<u>2013</u>
Unpaid claims, beginning of year	\$ 637,841
Incurred claims and changes in claim estimates	1,095,119
Claim payments	<u>(1,353,543)</u>
Unpaid claims, end of year	<u>\$ 379,417</u>
Current portion	\$ 348,417
Noncurrent portion	<u>31,000</u>
Unpaid claims, end of year	<u>\$ 379,417</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 without limitation 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 2013 and there were no settlements that exceeded insurance coverage during 2013 for those risks that IPTC purchased insurance.

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NOTE 6 - OPERATING LEASES

IPTC is obligated under certain leases through June 2014 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, 2013 was \$74,398. 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, 2013:

Year Ending December 31:

2014		\$ 82,054
2015		<u>65,460</u>
		<u>\$ 147,514</u>

NOTE 7 - OTHER NON-OPERATING REVENUE (EXPENSE)

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

	<u>2013</u>
Other revenues:	
Investment income	\$ 59,077
Miscellaneous	80,514
Gain on sale of capital assets	105,000
Pass-through grants for sub-recipients	<u>3,659,660</u>
	3,904,251
Other expenses:	
Interest - payable from restricted debt service assets	(139,611)
Interest - payable from unrestricted assets	(122,980)
Recognition of bond issue costs	(193,905)
Pass-through grants to sub-recipients	<u>(3,581,911)</u>
	<u>(4,038,407)</u>
	<u>\$ (134,156)</u>

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NOTE 8 - ENVIRONMENTAL REMEDIATION LIABILITY

The IPTC has had discussions with the Indiana Department of Environmental Management regarding a contamination remediation issue traced to leaking underground storage tanks. The cost of remediation is based upon current site knowledge/conditions, past remediation experience of site's with similar environmental issues, and the current IDEM regulations. The estimate is based on the expectation that a remediation system(s) will be required from the site to meet closure criteria under the IDEM RISC Program's Industrial Closure Criteria with an environmental deed restriction placed on the property.

Activity for the year ended December 31, 2013 was as follows:

	<u>2013</u>
Environmental remediation liability, beginning of year	\$ 1,826,007
Decreases/Payments	<u> -</u>
Unpaid claims, end of year	<u>\$ 1,826,007</u>
Current liability portion	\$ -
Noncurrent liability portion	<u>1,826,007</u>
Unpaid claims, end of year	<u>\$ 1,826,007</u>

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 3.0% of their compensation in order to receive the 3.0% employer match. Participant contributions for 2013 were \$585,371. Employer contributions for 2013 were \$514,420.

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 \$214,887 for the year ended December 31, 2013.

Defined Benefit Pension Plan: 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. 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.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
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NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2013

NOTE 9 - BENEFIT PLANS (Continued)

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 \$135,000 to the plan in 2013 and has reported a pension arbitration liability totaling \$270,000 at December 31, 2013.

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

Current portion	\$ 135,000
Noncurrent portion	<u>135,000</u>
	<u>\$ 270,000</u>

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.

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, 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. Vested participants are to remain in the defined benefit plan while actively employed at IPTC and began making contributions to the plan at a rate of 4.5%. The employer matches 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
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NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2013

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 2013 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 market value of the Plan's assets exceeded its obligations by approximately \$1,099,045 at December 31, 2013. 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 position of the Plan will first be applied to repay individual employee contributions in excess of any employee contributions previously disbursed. The remainder of net position 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, 2013 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.

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.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
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NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 2013

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

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 asset. The following schedule reports ARC and actual contributions made for the past three years:

<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution Made</u>	<u>Percentage Contributed</u>
2013	\$ 58,260	\$ 77,200	133%
2012	63,790	97,900	153%
2011	68,660	132,400	193%

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 asset:

Annual required contribution	\$ 58,260
Interest on net OPEB asset	(11,120)
Adjustment to annual required contribution	<u>11,040</u>
Annual OPEB cost	58,180
Contributions made	<u>77,200</u>
Increase in net OPEB asset	(19,020)
Net OPEB asset – beginning of year	<u>(296,535)</u>
Net OPEB asset – end of year	<u>\$ (315,555)</u>

Funded Status and Funding Progress: As of December 31, 2013, the actuarial accrued liability for benefits was \$1,461,000 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$1,461,000. 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.

(Continued)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
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 NOTES TO FINANCIAL STATEMENTS
 Year ended December 31, 2013

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

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.

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, 2013	
Discount Rate:	3.75% effective annual rate	
Inflation Rate:	0.0%	
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	

(Continued)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2013

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)
12/31/2013	\$ 0	\$ 1,461,000	\$ 1,461,000	0%	N/A	N/A
12/31/2012	0	1,514,000	1,514,000	0%	N/A	N/A
12/31/2011	0	1,546,200	1,546,200	0%	N/A	N/A

SUPPLEMENTARY INFORMATION

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
 (A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
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 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2013

<u>Federal Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amounts Awarded to Subrecipients</u>
Department of Transportation Federal Transit Administration			
Direct programs:			
Federal Transit Cluster:			
Capital Investment Grants	20.500	\$ 493,354	\$ -
Formula Grants	20.507	<u>13,399,479</u>	<u>697,857</u>
Total Federal Transit Cluster		13,892,833	697,857
Transit Services Programs Cluster:			
Job Access – Reverse Commuter Grant	20.516	1,195,808	900,467
New Freedom Program	20.521	<u>622,043</u>	<u>403,685</u>
Total Transit Services Programs Cluster		1,817,851	1,304,153
Alternatives Analysis	20.522	<u>1,657,276</u>	<u>1,657,276</u>
Total Federal Transit Administration expenditures		17,367,960	3,659,286
Department of Homeland Security			
Passed through FEMA:			
Rail and Transit Security Grant Program	97.075	<u>145,685</u>	-
Total Expenditures of Federal Awards		<u>\$ 17,513,645</u>	<u>\$ 3,659,286</u>

See accompanying notes to the schedule of expenditures of federal awards.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2013

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, 2013 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.

NOTE 2 - MATCHING COSTS

Matching costs, i.e., the nonfederal share of program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

NOTE 3 - SUBRECIPIENTS

In OMB Circular A-133, subrecipients are defined as nonfederal entities that expend federal awards received from a pass-through entity to carry out a federal program, but do not benefit from that program. IPTC passed through certain amounts to subrecipients, which are identified in the Schedule of Expenditures of Federal Awards.

**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
Indianapolis Public Transportation Corporation
Indianapolis, Indiana

We have audited, in accordance with the 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 the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts, the financial statements 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 and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise IPTC's basic financial statements, and have issued our report thereon dated June 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered IPTC'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 IPTC's internal control. Accordingly, we do not express an opinion on the effectiveness of IPTC'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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 13-01, 13-02, and 13-03)

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*.

IPTC's Response to Findings

IPTC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. IPTC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
June 19, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Board of Directors
Indianapolis Public Transportation Corporation
Indianapolis, Indiana

Report on Compliance for Each Major Federal Program

We have audited Indianapolis Public Transportation Corporation's 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 IPTC's major federal programs for the year ended December 31, 2013. IPTC'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 IPTC'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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of IPTC's compliance.

Opinion

In our opinion, IPTC 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, 2013.

Report on Internal Control Over Compliance

Management of IPTC 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 IPTC'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 IPTC'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
June 19, 2014

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

December 31, 2013 Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

Type of auditors' 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 Circular A-133 Yes No

Identification of major programs:

- CFDA 20.500/20.507 – Federal Transit Cluster
- CFDA 20.516/20.521 – Transit Services Program Cluster
- CFDA 20.522 – Alternative Analysis program

Dollar threshold used to distinguish between type A and type B programs: \$ 525,409

Auditee qualified as low-risk auditee? Yes No

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013

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

13-01 Controls over Financial Reporting (Material Weakness)

Condition and Criteria: Management is responsible to have internal controls in place to provide appropriate and reliable financial reports and to select and apply appropriate accounting principles. Management is not required to prepare their financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their financial reports without significant deficiencies in these controls.

During the current year audit, a significant number of material audit adjustments were posted that changed the financial statement results of IPTC by a material amount.

Many of the adjusting entries were made to balance the general ledger to underlying subsidiary detail reports. The primary reason for the nature, number, and material amounts was that accounts were not properly reconciled to the general ledger on a timely basis during the year, or reconciliations were not performed or properly reviewed. These adjustments impacted federal grants, investments, debt, inventory, capital assets, accounts payable and payroll. The net impact on the financial statements is shown below:

- Total assets were understated by approximately \$588,000
- Total liabilities were overstated by approximately \$63,000
- Total revenues were understated by approximately \$340,000
- Total expenses were overstated by approximately \$310,000

Cause and Effect: The above condition appears to be the result of lack of internal controls over the reconciliation process and insufficient training and staffing in the Finance Department. The effect is a lack of materially accurate monthly general ledger financial reporting from management during the year.

Questioned Costs: None

Recommendations: We suggest that management establish appropriate procedures and reviews to provide for accurate and timely monthly reconciliations so that the general ledger reflects a complete, accurate representation of financial results. Monthly reconciliations should include posting adjustments identified each month. All reconciliations should be reviewed and approved by someone independent of the preparer.

Management Response and Corrective Action Plan: IPTC engaged a firm to review and evaluate our financial structure and the staffing. This review has been received and adopted by IPTC and is in the process of being implemented. This plan calls for adding four additional positions; Director of Budget and Compliance, Grants Manager, Staff Accountant and a part-time Payroll Clerk. These additions should allow the staff to properly account for the assets of IPTC and improve the internal controls. We fully expect that these changes will resolve the issue identified.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013

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

13-02 Review of Disbursements/Transfers (Material Weakness)

Condition and Criteria: During analysis of bond interest expense, we noted that an interest payment for \$399,000 was made in September on 2003D bonds that were not issued by IndyGo. We further noted that the transfer of funds from the operating bank account to the sinking fund bank account, as well as the actual payment to the bank, was approved by management.

Cause and Effect: The deficiency is due to the internal control not operating effectively or a lack of detailed review resulting in an improper payment being processed.

Questioned Costs: None

Recommendation: We recommend that management thoroughly review all invoices received before approving for payment to ensure that only proper disbursements are made.

Management Response and Corrective Action Plan: IPTC engaged a firm to review and evaluate our financial structure and the staffing. This review has been received and adopted by IPTC and is in the process of being implemented. This plan calls for adding four additional positions; Director of Budget and Compliance, Grants Manager, Staff Accountant and a part-time Payroll Clerk. These additions should allow the staff to properly account for the assets of IPTC and improve the internal controls. We fully expect that these changes will resolve the issue identified.

13-03 Internal Controls over Federal Reporting and over Preparation of the Schedule of Expenditures of Federal Awards (Material Weakness)

Condition and Criteria: Material weaknesses in internal controls identified for financial statement reporting increase the risk that internal controls over the reporting of the Schedule of Expenditures of Federal Awards (SEFA) and compliance for major and non-major programs may not be effective.

In addition, during review of the controls over the SEFA preparation with management, we noted that one person has the main responsibility for preparation of the SEFA with no independent review and approval. Also, errors were noted in the SEFA provided by management, including the failure to identify two of the federal grants.

Cause and Effect: The material weaknesses identified over financial reporting were primarily focused on the internal controls over and reconciliation of subsidiary detail to the general ledger. The general ledger is the official record for financial statement reporting. The lack of timely and accurate reconciliation between subsidiary detail, supporting federal draws, and the general ledger presents a risk related to internal controls over compliance for allowable costs. Additionally, management failed to identify CFDA 20.522 and 97.075 in the SEFA that was provided. The necessary controls surrounding the preparation of the SEFA were not in place in the current year to facilitate the SEFA preparation process.

Questioned Costs: None

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Recommendations: We recommend that a reconciliation of subsidiary detail to general ledger detail be performed on a monthly basis to determine that federal draws are properly supported by general ledger records. We also recommend that the reconciliation of federal expenditures and preparation of the SEFA be approved by IPTC staff that is independent of the reconciliation and SEFA preparation process.

Management Response and Corrective Action Plan: IPTC engaged a firm to review and evaluate our financial structure and the staffing. This review has been received and adopted by IPTC and is in the process of being implemented. This plan calls for adding four additional positions; Director of Budget and Compliance, Grants Manager, Staff Accountant and a part-time Payroll Clerk. These additions should allow the staff to properly account for the assets of IPTC and improve the internal controls. We fully expect that these changes will resolve the issue identified.

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

None

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SECTION 4 - PRIOR YEAR FINDINGS AND QUESTIONED COSTS

12-01 Controls over Financial Reporting (Material Weakness)

Condition and Criteria: Management is responsible to have internal controls in place to provide appropriate and reliable financial reports and to select and apply appropriate accounting principles. Management is not required to prepare their financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their financial reports without significant deficiencies in these controls.

During the current year audit, a significant number of material audit adjustments were posted that changed the financial statement results of IPTC by a material amount.

Many of the adjusting entries were made to balance the general ledger to underlying subsidiary detail reports. The primary reason for the nature, number, and material amounts was that accounts were not properly reconciled to the general ledger on a timely basis during the year, or reconciliations were not performed or properly reviewed. These adjustments impacted federal grants, investments, debt, inventory, capital assets, accounts payable and payroll. The net impact on the financial statements is shown below:

- Total assets were understated by approximately \$526,000
- Total liabilities were overstated by approximately \$3,500,000
- Total revenues were understated by approximately \$4,400,000
- Total expenses were understated by approximately \$396,000

Cause and Effect: The above condition appears to be the result of lack of internal controls over the reconciliation process and insufficient training and staffing in the Finance Department. The effect is a lack of materially accurate monthly general ledger financial reporting from management during the year.

Questioned Costs: None

Recommendations: We suggest that management establish appropriate procedures and reviews to provide for accurate and timely monthly reconciliations so that the general ledger reflects a complete, accurate representation of financial results. Monthly reconciliations should include posting adjustments identified each month. All reconciliations should be reviewed and approved by someone independent of the preparer.

Management Response and Corrective Action Plan: Significant turn-over in the Finance Department revealed the need to better document closing procedures to preserve institutional knowledge and to provide additional training to new staff. Management has begun the process of reviewing current month-end closing procedures with the goal of developing a more formalized, well-documented reconciliation process. This process will include an independent, formal review and approval of account reconciliations.

Status: Similar finding in current year, see Finding 13-01

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SECTION 4 - PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

12-02 Journal Entry Review (Material Weakness)

Condition and Criteria: During our testing of journal entries, it was noted that IPTC's journal entry review process was not being completed. A review of the journal entry binder revealed several months of entries that had not yet been reviewed. Further, our year end audit procedures identified the erroneous posting of prior year closing entries in the current year. Given these observations, review and approval of journal entries is deficient.

Cause and Effect: Due to the changes in management during the year, journal entries were not reviewed in accordance with company policy. This resulted in multiple erroneous entries being posted at year end.

Questioned Costs: None

Recommendations: Crowe recommends that management follow the stated journal entry review policy, which requires timely review of journal entries following month-end close.

Management Response and Corrective Action Plan: The CFO will review journal entries as part of the monthly closing process.

Status: Resolved.

12-03 Accounts Payable Cutoff (Material Weakness)

Condition and Criteria: During the search for unrecorded liabilities, we noted several invoices that were improperly excluded from the payable accounts thus understating liabilities and expenses as of December 31, 2013. These invoices were being entered by invoice date rather than the date the good/service was shipped/performed.

Cause and Effect: Due to invoices not being properly reviewed for cutoff, there were multiple invoices that were not included in accounts payable at year end, which resulted in liabilities and expenses being understated.

Questioned Costs: None

Recommendations: Crowe recommends a formal review of invoices received subsequent to year end to ensure proper cutoff.

Management Response and Corrective Action Plan: Management plans to implement a formal, year-end cutoff analysis for 2013. The analysis will include a review of invoices received and payments made subsequent to year end to ensure recording in the proper period.

Status: Resolved.

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12-04 Financial Management Oversight Review (Material Weakness)

Condition and Criteria: A full scope financial management oversight review was performed on behalf of the Federal Transit Administration (FTA) by an independent auditor hired by the Federal Transit Administration and a draft report was issued to IPTC. The report date of the financial management oversight review report is December 31, 2011. This draft report communicates the following material weaknesses and significant deficiencies:

- IPTC does not adequately track FTA grant activity (MW)
- IPTC does not maintain adequate control over FTA funded rolling stock (MW)
- IPTC does not maintain adequate insurance procedures related to third party payments (MW)
- Certain payroll costs are not being properly allocated to the correct IPTC cost objectives (SD)
- IPTC does not maintain adequate information technology controls (SD)
- IPTC does not maintain adequate control over the spare parts inventory (SD)
- IPTC does not consistently perform sub-recipient monitoring for construction projects (SD)

Cause and Effect: These deficiencies are due controls not operating effectively or a lack of control.

Questioned Costs: None

Recommendations: Crowe recommends that IPTC review and consider implementing the recommendations provided in order to remediate each of the issues noted within the report.

Management Response and Corrective Action Plan: All items pertaining to the financial management oversight review have been corrected except the following two items:

1. The finding concerning information technology controls is being corrected by our new IT plan which is being implemented now.
2. The finding concerning insurance coverage of our rolling stock is being addressed by a request for proposal (RFP) for insurance coverage currently on the market.

Status: Management has submitted a formal corrective action plan to the FTA and no further communication has been received.

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12-05 Internal Controls over Federal Reporting and over Preparation of the Schedule of Expenditures of Federal Awards (All CFDA's including 20.500/20.507, 20.516/20.521, and 20.522) (Material Weakness)

Condition and Criteria: Material weaknesses in internal controls identified for financial statement reporting increase the risk that internal controls over the reporting of the Schedule of Expenditures of Federal Awards (SEFA) and compliance for major and non-major programs may not be effective.

In addition, during review of the controls over the SEFA preparation with management, we noted that one person has the main responsibility for preparation of the SEFA with no independent review and approval.

Cause and Effect: The material weaknesses identified over financial reporting were primarily focused on the internal controls over and reconciliation of subsidiary detail to the general ledger. The general ledger is the official record for financial statement reporting. Although the Schedule of Expenditures of Federal Awards was materially supported by subsidiary information, there were significant audit adjustments to the general ledger detail. Some detail was manually prepared and used for federal draws, and was not integrated into, and reconciled with, the general ledger. The lack of timely and accurate reconciliation between subsidiary detail, supporting federal draws, and the general ledger presents a risk related to internal controls over compliance for allowable costs. We noted that the necessary controls surrounding the preparation of the SEFA were not in place in the current year to facilitate the SEFA preparation process.

Questioned Costs: None

Recommendations: We recommend that a reconciliation of subsidiary detail to general ledger detail be performed on a monthly basis to determine that federal draws are properly supported by general ledger records. We also recommend that the reconciliation of federal expenditures and preparation of the SEFA be approved by IPTC staff that is independent of the reconciliation and SEFA preparation process.

Management Response and Corrective Action Plan: Significant turn-over in the Finance Department revealed the need to better document closing procedures to preserve institutional knowledge and to provide additional training to new staff. Management has begun the process of reviewing current month-end closing procedures with the goal of developing a more formalized, well-documented reconciliation process. This process will include an independent, formal review and approval of account reconciliations. These procedures will serve to ensure accurate reporting on the SEFA. Further, management plans to implement an independent review of the SEFA. Finally, management has taken steps to improve overall grant tracking, reporting, and oversight, including the creation of a grant liaison position to improve communication between the Finance Department and program managers.

Status: Similar finding in current year, see Finding 13-03.

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12-06 Cash Management (Significant Deficiency)

Condition and Criteria: During testing of federal expenditure, we noted that 3 of the 40 disbursements tested were drawn for twice, and of the three disbursements, two were drawn from the wrong grant. We noted that the amounts were either returned or a subsequent draw was reduced by the amount drawn twice. Crowe also noted one item that was drawn for and recorded as a 2013 grant receivable that was actually a 2013 expense. Expenditures must occur to support the draws as the grants are reimbursement based grants.

Cause and Effect: While the amounts were returned or a subsequent draw was reduced by the amount drawn twice, the amounts would not have been drawn twice if the proper controls were in place. As the amounts drawn are considered advances of funds, interest should have been returned with the amounts returned at the rate of return on investments held by the company.

Questioned Costs: None

Recommendations: Crowe recommends that an expenditure tracking file be created to track what amounts need to be drawn and from which grant. Then, when the amounts have been drawn, the company should note in the file which Echo the amount was drawn. This file should contain enough detail to ensure that when new items are being entered, the person entering the information for the expenditure can compare it to prior entries to ensure that the amount does not get drawn twice. A review of this tracking file should occur periodically to ensure that there are no duplicates and that the revenues agree to the revenues recorded on the general ledger. We also recommend that management review the period of service noted on invoices to ensure that the expenditures are being coded to the proper period and the related revenues being coded to the proper period as well.

Management Response and Corrective Action Plan: IPTC has begun utilizing a project accounting module within the accounting system. This module will allow tracking of all purchase orders issued and assigned to a grant. Further, training has been provided, both for general procurement procedures, and also surrounding the new project accounting module. The implementation of the project accounting module and training, coupled with the remedial steps taken surrounding grant tracking and account reconciliations, are expected to eliminate missing or duplicate draws.

Status: Resolved.

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12-07 Procurement Independent Cost Estimate (Significant Deficiency)

Condition and Criteria: We noted that for 1 of the 10 procurements tested, there was no independent cost estimate performed. This procurement was for a telecommunication system upgrade, which was awarded to G3 Technologies, Inc. for an amount not to exceed \$241,349. Per 2 CFR section 215.45, "some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability." Per the Procurement Manager, this instance was an oversight during the procurement process. Subsequent to the procurement, the Procurement Manager received a verbal quote of \$265,000 from Time Warner, which is higher than the proposal from G3 Technologies, Inc.

Cause and Effect: As there was no independent cost estimate performed, the bid that was accepted could have been higher than what the Company would have been willing to accept had the estimate been performed.

Questioned Costs: None

Recommendations: We recommend that all procurements have an independent cost estimate performed to ensure that all bids are reasonable, allocable and allowable.

Management Response and Corrective Action Plan: Our current procurements procedures require us to perform an independent cost estimate on all procurements. Management has provided additional procurement training to ensure procedures are followed.

Status: Resolved.