GARY PUBLIC TRANSPORTATION CORPORATION

FINANCIAL STATEMENTS
December 31, 2009

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Gary, Indiana

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Gary Public Transportation Corporation
Gary, Indiana

We have audited the accompanying statement of net assets of Gary Public Transportation Corporation (the "Corporation") as of December 31, 2009, and the related statement of revenues, expenses, and changes in net assets, and cash flows, for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2009 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Corporation has restated their December 31, 2008 financial statements to properly reflect grants receivable and inventory balances and reduce beginning net assets by $544,526.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2010 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The Management Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Corporation. The information in these schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
December 16, 2010

The management discussion and analysis of the financial performance of Gary Public Transportation Corporation ("the Corporation" or "GPTC") provides an overall review of the Corporation's financial activities for the years ended December 31, 2009 and 2008. The management of the Corporation encourages readers to consider the information presented herein in conjunction with the basic financial statements to enhance their understanding of the Corporation's financial performance. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- In total for all activities, the Corporation's total assets decreased by $2.6 million or 22.3%, from $11.8 million in 2008 to $9.2 million in 2009. Liabilities decreased by $2.0 million during the same period representing a 26.54% decrease.

  The total operating and non-operating costs in 2009 were $8.7 million, offset by operating and non-operating revenues such as taxes, interest income, grants and contributions of $8.0 million, resulting in the $0.7 million decrease in net assets.

  The total operating and non-operating costs in 2008 were $10.3 million, offset by operating and non-operating revenues such as taxes, interest income, grants and contributions of $10.2 million, resulting in the $0.1 million decrease in net assets.

- Federal, local and state grant assistance in the amount of $3.2 million and $4.4 million accounted for 40.5% and 42.7% of total revenue in 2009 and 2008, respectively. Property taxes, totaling $2.2 million and $4.2 million, comprised of 27.7% and 41.4% of revenue for all of the Corporation's revenues for 2009 and 2008, respectively. Passenger and advertising revenue, which are considered operating revenues, totaled $0.9 million in 2009 and $1.0 million in 2008, accounting for 11.1% and 9.6% of total revenue in 2009 and 2008, respectively. RBA revenue totaled $1.7 million and $0.6 million, accounting for 20.8% and 6.3% of total revenue in 2009 and 2008, respectively.

- The most significant continuing financial challenge for 2009 has been the complexity of maintaining operating revenue from local and state sources. The difficulty is due to lower than anticipated collection rates in property taxes of property owners, which has been affected by increased assessed valuations. Additional challenges include the performance based formula for state assistance, and stagnant or inconsistent passenger and advertising revenue.

- 2009 General and Administrative costs decreased by $0.2 million, from $2.3 million to $2.1 million primarily due to decreases in health insurance costs.

(Continued)

Overview of the Financial Statements

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

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

The financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

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

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

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

The Corporation adopts an annual budget. A budgetary basis comparison statement has been provided to demonstrate compliance with this budget.

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

(Continued)

Financial Analysis

Statement of Net Assets: The Corporation's total assets ($9.2 million) decreased from the prior year by $2.6 million. The decrease is primarily due to a decrease in property tax receivables of $1.3 million, a decrease in net capital assets of $1.6 million, offset by increases in cash of $0.3 million. Liabilities decreased by $2 million primarily due to a $0.6 million decrease in current liabilities (tax warrants) and a $1.3 million decrease in bonds and notes payable.

TABLE 1
Total Assets, Liabilities and Net Assets
(in millions of dollars)

	2009	*2008*
Current and other assets	$ 3.2	$ 4.3
Capital assets	$ 6.0	$ 7.5
Total assets	**$ 9.2**	**$ 11.8**
Long-term debt outstanding	$ 2.6	$ 3.9
Current liabilities	$ 2.9	$ 3.5
Total liabilities	**$ 5.5**	**$ 7.4**
Net assets:		
Invested in capital assets, net of related debt	$ 2.0	$ 2.7
Unrestricted	$ 1.7	$ 1.7
Total net assets	**$ 3.7**	**$ 4.4**
Total liabilities and net assets	**$ 9.2**	**$ 11.8**

(Continued)

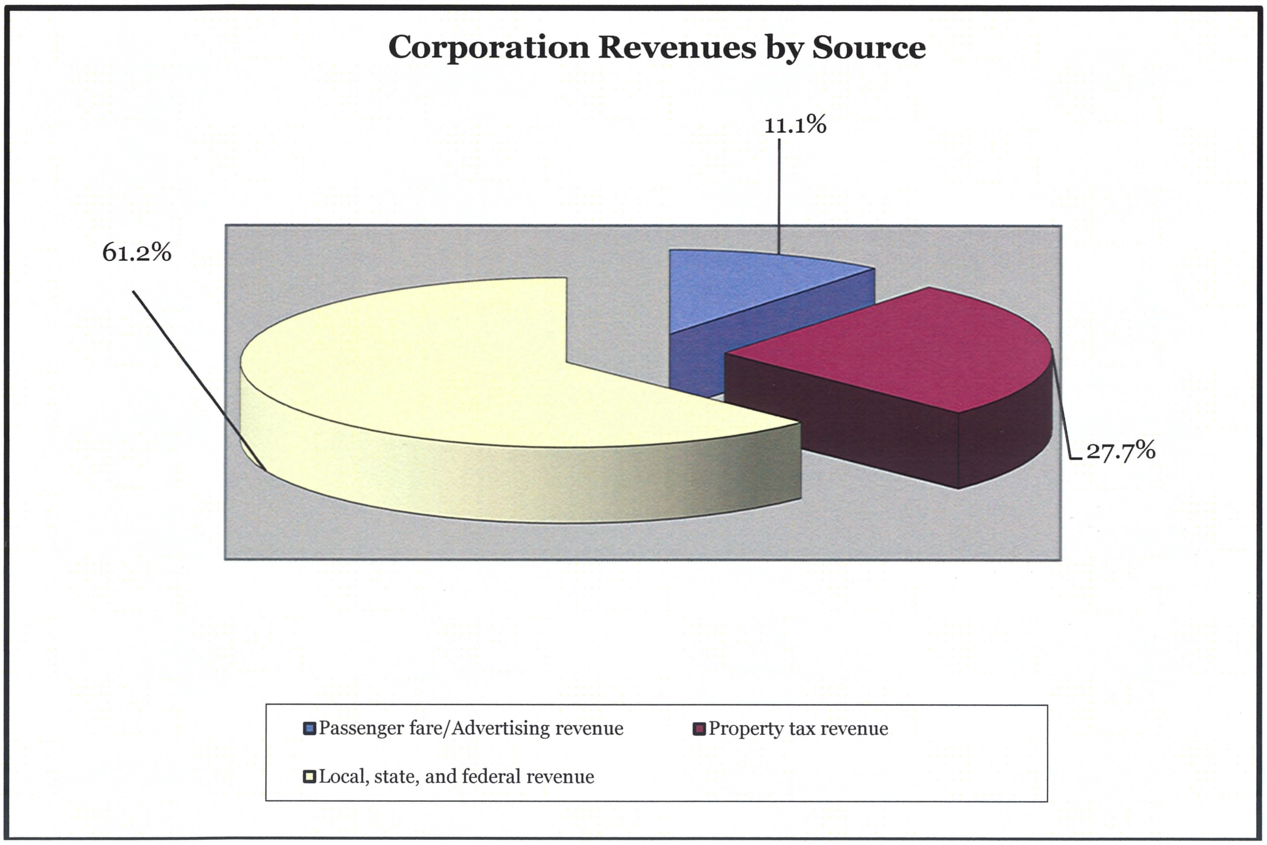
Changes in Net Assets: FY2009 and 2008 revenue from the Corporation's activities were $8.1 million and $10.2 million, respectively, with related expenses of $9.2 million and $10.1 million.

TABLE 2
Changes in Net Assets
(in millions of dollars)

	2009	*2008*
Revenues:		
Operating revenues:		
Passenger/ advertising revenue	$ 0.9	$ 1.0
Non-operating revenues:		
Property taxes	$ 2.2	$ 4.2
Local, state and federal operating assistance	$ 4.9	$ 5.0
Total revenues	**$ 8.0**	**$ 10.2**
Expenses:		
Transportation	$ 3.3	$ 4.2
Maintenance	$ 1.3	$ 1.9
Building	$ 0.5	$ 0.5
General and administrative	$ 2.1	$ 2.3
Depreciation expense	$ 1.3	$ 1.2
Interest on bonds	$ 0.2	$ 0.2
Total expenses	**$ 8.7**	**$ 10.3**
Increase(decrease)in net assets	**$ (0.7)**	**$ (0.1)**

(Continued)

Revenues by Source: Federal, local and state grant assistance in the amount of $4.9 million and $5.0 million accounted for 61.3% and 47.6% of total revenue in 2009 and 2008, respectively. Property taxes, totaling $2.2 million and $4.2 million comprised 27.7% and 41.4% of revenue for all of the Corporation's revenues for FY 2009 and 2008 respectively. Passenger fare and advertising revenue, which are considered operating revenues, totaled $0.9 million and $1.0 million, accounting for 11.1% and 9.6% of total revenue in FY 2009 and 2008, respectively.



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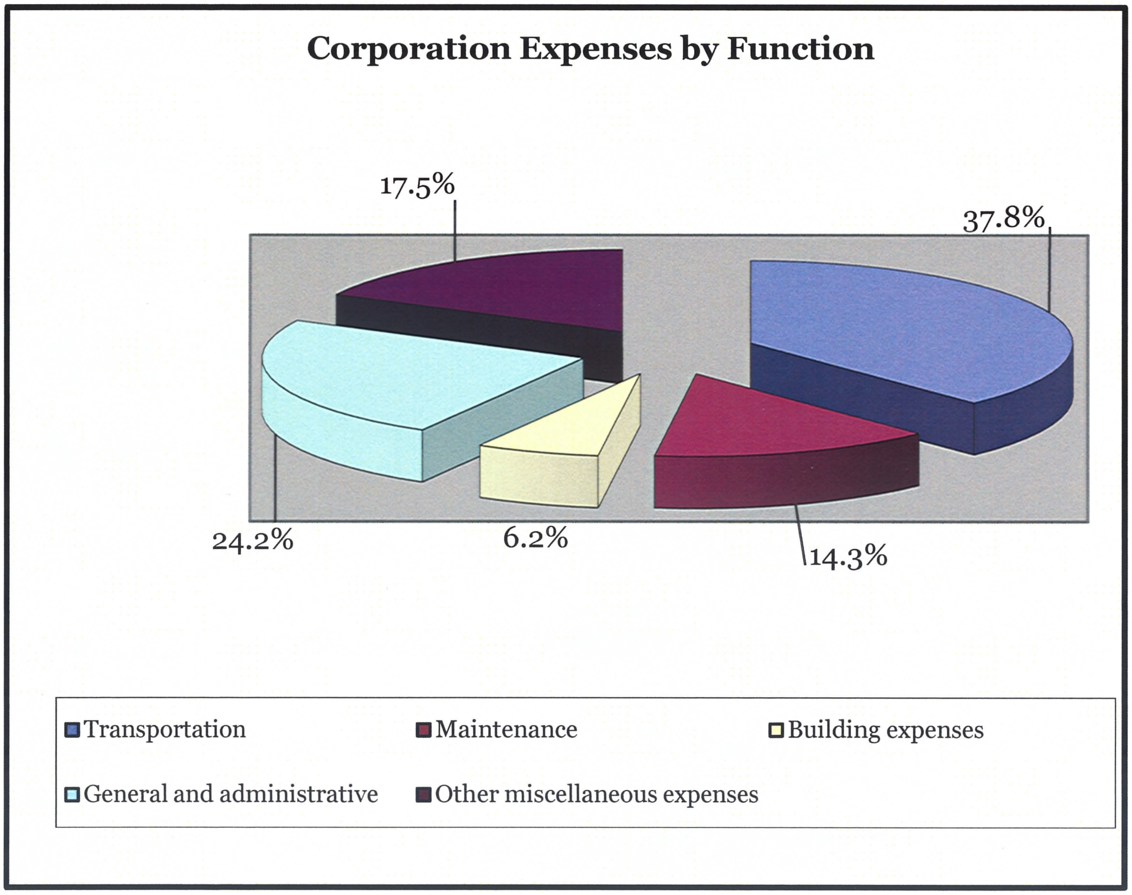
Expenses by Function: Expenses for transportation in the amount of $3.3 million and $4.2 million accounted for 37.8% and 40.4% of total expenses for 2009 and 2008, respectively, while maintenance in the amount of $1.3 million and $1.9 million accounted for 14.3% and 18.7% of total expenses for 2009 and 2008, respectively. Building expenses in the amounts of $0.5 million and $0.5 million for 2009 and 2008 accounted for 6.2% an 4.4%, respectively, general and administrative in the amount of $2.1 million and $2.3 million accounted for 24.2% and 22.1% in 2009 and 2008, respectively, and other expenses including depreciation expense, interest on bonds, amortization expense, and other miscellaneous items in the amount of $1.5 and $1.4 million accounted for 17.5% and 14.4% for 2009 and 2008, respectively.



Financial Analysis of the Corporation's Funds

Budgetary Highlights

The recovery ratio measures the amount of operating expenses the Corporation has to fund from revenues it generates.

TABLE 3
Schedule of Expenses and Revenues – Budget and Actual – Budgetary Basis for the year ended December 31, 2009
(in millions of dollars)

		Final Budget	*Original Budget*	*Actual*	*Variance Favorable (Unfavorable)*
Operating Expenses:					
Transportation expenses		$3.6	$3.6	$ 3.3	$ 0.3
Maintenance expenses		1.3	1.3	1.3	-
Building		0.3	0.3	0.5	(0.2)
General and administrative		3.6	3.6	2.1	1.5
Total expenses	**(B)**	**$8.8**	**$8.8**	**$ 7.2**	**$ 1.6**
System-generated revenues:					
Passenger revenue/advertising		$1.0	$1.0	$ 0.9	$(0.1)
Total system-generated revenues	**(A)**	**$1.0**	**$1.0**	**$ 0.9**	$(0.1)
Operating expenses in excess of system-generated revenues:		**$7.8**	**$7.8**	**$ 6.3**	**$ 1.5**
Reconciliation to GAAP basis:					
Provision for depreciation				$(1.3)	
Federal, local, and state assistance				4.9	
Property tax expense				2.2	
Interest on bonds				(0.2)	
Total reconciliation to GAAP basis				$ 0.7	
Recovery ratio (A)/(B)				**12.50%**	

(Continued)

Capital Asset and Debt Administration

Capital assets

At the end of 2009 and 2008 the Corporation had invested $6.0 million and $7.5 million, respectively, net of accumulated depreciation, in a broad range of capital assets, including, but not limited to, buildings, vehicles, communication equipment, signals equipment, and other equipment. The total depreciation expense was $1.3 million for 2009 and $1.2 million for 2008.

TABLE 4
Capital Assets (net of depreciation)
(in millions of dollars)

	2009	2008
Land	$ 0.6	$ 0.6
Buildings, Property, Equipment, net	5.4	6.9
Total Capital Assets	**$ 6.0**	**$ 7.5**

During 2009, the Corporation disposed and sold for scrap value, $6.1 million (original cost) of assets which had a net book value of approximately $290,000. A loss of $287,461 was recorded on the disposal.

Long-term Debt

Note Payable: In 2001, the Corporation entered into a contract with Johnson Controls, Inc. ("JCI") to remodel and upgrade systems at the location on 35th Street in Gary, Indiana. The total cost of the project, as set forth in the contract, was approximately $3,155,000. As a part of the project, funds were financed through Orix Financial Services, Inc. Monthly principal payments plus interest are due through May 2012. As part of this contract, JCI guarantees that the Corporation will save $3,572,355 over the ten-year period following completion of the project that matures in 2012. In accordance with the agreement, the Corporation hired an outside consultant to oversee the progress of the project. The balance of the note payable at December 31, 2009 and 2008 was approximately $0.4 million and $0.6 million, respectively.

Bonds Payable: In June 2006, the Corporation issued $5.6 million of General Obligation Bonds Series, 2006 to provide funds (a) to meet the Federal Transportation Authority's (FTA) local match requirements for various FTA grants that will fund the acquisition of equipment including the replacement of transit buses, replacement ADA vans, on board surveillance equipment, Transit Bus conversion Project, support vehicles, bus shelters, Bus lifts, parking garage exterior lighting, computer hardware and software, (b) to fund Maintenance Facility Capital Performance Contract, (c) to fund Self-Insurance Program and (d) to pay incidental expenses and costs of issuing the Bonds. These bonds are payable in semi-annual principal and interest payments. The final maturity of the bonds is December 31, 2012. The general obligation bonds are supported by a separate debt service tax levy, independent of operating revenue.

On December 31, 2009, the Corporation had approximately $3.4 million in general obligation bonds outstanding, a 24.7% decrease from December 31, 2008. The decrease is due to bond principal payments of $1.1 million in 2009. More detailed information about the Corporation's long-term debt is presented in Note 7.

(Continued)

TABLE 5 **Outstanding Notes and Bonds Payable** ***(in millions of dollars)***		
	2009	2008
Orix Financial Services, Inc.	$ 0.5	$ 0.7
General obligation bonds	3.4	4.5
Total Long Term Debt	**$ 3.9**	**$ 5.2**

Short-term Debt

The Corporation also issues Tax Warrants on an annual basis to manage its cash flow requirements in anticipation of receiving tax revenues for the operating funds. Although Tax Warrants are typically retired within the calendar year (on or before December 31), the delay in receipt of tax revenues caused many Lake County taxing units, including GPTC, to roll over the debt into the new year until tax revenues become available to retire the debt. During 2009, GPTC entered into an agreement to issue Tax Anticipation Warrants. During 2009, the 2008 tax warrants were paid in full.

On June 25, 2009, Gary Public Transportation Corporation issued tax warrants in the amount of $1,470,114 which is payable from the operating fund. The warrants were issued at a 1.25% interest rate. Although Tax Warrants are typically retired within the calendar year (on or before December 31), the delay in receipt of tax revenues caused many Lake County taxing units, including GPTC, to roll over the debt into the new year until tax revenues become available to retire the debt. On December 31, 2009, $938,038 was outstanding on the 2009 Tax Warrant. However, this tax warrant was paid in March 2010 with 2009 tax receipts that were paid late by the county.

Factors Bearing on the Corporation's Future

GPTC is expected to receive grant revenue from the America Recovery & Reinvestment Project in the amount of $4.3 million. Approximately $1.7 million will be used for operating and the remaining $2.6 million will be used to fund new bus purchases and capital projects (improvements in the maintenance facility and to purchase regional fare collection equipment). Approximately $748,000 has been earned and spent in 2009.

GPTC entered into a service agreement with the Regional Bus Authority of northwest Indiana to provide regional bus services on three routes at a cost of $1.6 million per year through August 2010. GPTC received payments of $134,500 per month from the agreement. This agreement was not renewed and GPTC has been in process of restructuring operating cost to compensate for the decrease in funding.

Indiana House Bill 1001 was enacted mid 2008. This House Bill will reduce GPTC's property tax revenue by approximately $1.2 million in 2010 in comparison to 2009, from revenues prior to the bill's enactment.

(Continued)

Requests for Information

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

GARY PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF NET ASSETS
December 31, 2009

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 1,068,978
Federal and state grants receivable	1,266,803
Property taxes receivable, net	676,102
Accounts receivable	25,653
Materials and supplies Inventory	98,149
Prepaid expenses	32,810
Total current assets	3,168,495
Other assets:	
Deferred financing fees, net	53,538
Capital assets: (Note 3)	
Capital assets not being depreciated:	
Construction in progress	29,621
Land	631,331
Total capital assets not being depreciated	660,952
Depreciable capital assets:	
Building and improvements	14,208,289
Revenue vehicles and equipment	9,368,039
Service vehicles and equipment	2,002,609
Office furniture and equipment	1,198,826
	26,777,763
Less: Accumulated depreciation	(21,463,156)
Total depreciable capital assets, net	5,314,607
Total capital assets, net	5,975,559
Total assets	$ 9,197,592
LIABILITIES	
Current liabilities:	
Accounts and other payables	$ 287,026
Accrued payroll liabilities	48,882
Tax anticipation warrants (Note 6)	938,038
Short-term portion of bonds payable (Note 7)	1,130,000
Short-term portion of JCI note payable (Note 7)	195,275
Other current liabilities (Note 4)	264,869
Total current liabilities	2,864,090
Long-term liabilities:	
JCI note payable (Note 7)	298,172
Bonds payable (Note 7)	2,310,000
Total long-term liabilities	2,608,172
Total liabilities	5,472,262
Net assets	
Invested in capital assets net of related debt	2,042,112
Unrestricted net assets	1,683,218
Total net assets	3,725,330
Total liabilities and net assets	$ 9,197,592

See accompanying notes to financial statements.

GARY PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year ended December 31, 2009

Operating revenues	
Regional Bus Authority revenue (Note 8)	$ 1,676,576
Passenger revenue	882,443
Advertising revenue	9,900
Total operating revenues	2,568,919
Operating expenses	
Transportation expenses	3,293,630
Maintenance expenses	1,248,217
Building expenses	537,418
General and administrative	2,111,467
Deprecation expense	1,268,675
Interest expense	238,239
Amortization expense	17,846
Total operating expenses	8,715,492
Operating expense in excess of operating revenue	(6,146,573)
Nonoperating revenue (expense) (Note 9)	
FTA preventative maintenance assistance	1,206,251
FTA operating grant - ARRA	748,438
State operating assistance	1,056,755
Property tax revenue	2,111,315
Local operating tax revenue	117,594
Other income, net	119,625
Federal and other capital assistance	418,727
Loss on disposal of capital assets	(287,461)
Total nonoperating revenue (expense)	5,491,244
Change in net assets	(655,329)
Total net assets, beginning of year, as previously reported	4,925,185
Prior period adjustments (Note 1)	(544,526)
Total net assets, beginning of year, as restated	4,380,659
Total net assets, end of year	$ 3,725,330

See accompanying notes to financial statements.

GARY PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2009

Cash flows from operating activities	
Cash received from fares	$ 2,527,837
Cash received from other operating activities	9,900
Payments to employees	(4,792,973)
Payments to suppliers and vendors	(2,647,180)
Net cash from operating activities	(4,902,416)
Cash flows from noncapital financing activities	
Repayment of tax anticipation warrants	(1,682,204)
Proceeds from tax anticipation warrants	938,038
Receipts of local government assessments and taxes	3,492,525
Receipts of federal and state government grants and reimbursements	2,633,079
Net cash from noncapital financing activities	5,381,438
Cash flows from capital and related financing activities	
Repayment on bonds payable	(1,313,749)
Payments for acquisition of capital assets	(9,273)
Proceeds from sale of capital assets	8,900
Proceeds from federal capital assistance grants	418,727
Net cash from capital financing activities	(895,395)
Cash flows from investing activities	
Interest income	69,391
Net change in cash and cash equivalents	(346,982)
Cash and cash equivalents, beginning of year	1,415,960
Cash and cash equivalents, end of year	$ 1,068,978
Reconciliation of operating income to net cash from operating activities	
Operating (loss)	$ (6,146,573)
Adjustments to reconcile operating income (loss) to net cash from operating activities	
Depreciation	1,268,675
Amortization	17,846
Bad debt expense	43,000
(Increase) decrease due to changes in:	
Accounts receivable	(117,183)
Materials and supplies inventory	(16,307)
Prepaid expense	(32,810)
Accounts payable	135,128
Accrued salaries	(131,085)
Other liabilities	76,893
Net cash from operating activities	$ (4,902,416)

See accompanying notes to financial statements.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity: In evaluating how to define the Corporation for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the Corporation and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting equity is the existence of special financing relationships, regardless of whether the Corporation is able to exercise oversight responsibilities.

Based upon the application of these criteria, no entities have been considered to be potential component units for the purpose of defining the Corporation's reporting entity.

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

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

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

(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of the GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting", GPTC has elected to apply all Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. GPTC has elected to not apply FASB pronouncements after the applicable date.

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

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

<u>Use of Estimates in Preparation of Financial Statements</u>: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

<u>Prior Period Adjustments</u>: During 2009, it was determined that certain prior year grant receivables were recorded incorrectly as they represented amounts earned during the 2009 year. A prior period adjustment of $294,341 is reflected to reduce the Net Assets reported at January 1, 2009. For 2009, grant revenue was recognized in 2009 when earned.

In addition, during 2009 it was also determined that certain inventories held and previously reported at December 31, 2008 were obsolete. A prior period adjustment of $250,185 is reflected to reduce the Net Assets reported at January 1, 2009.

<u>Operating and Non-operating Revenues and Expenses</u>: The principal operating revenue of GPTC is passenger fares. GPTC also recognized as operating revenue the rental fees received from concessionaries, the fees collected from advertisements of GPTC's property, and miscellaneous operating revenues. Beginning in 2008, GPTC has an agreement with the Northwest Indiana Regional Bus Authority ("RBA") where GPTC will operate certain regional fixed route public transportation services to enhance public transportation services throughout Northwest Indiana. The funding from the RBA is also considered operating revenue (See Note 8).

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

(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Property Taxes: Property tax revenues are recognized in the year in which they are levied. Property taxes levied are collected by the County Treasurer and are distributed to the Corporation. The Corporation collects taxes after the due dates, usually within 45-90 days. State statue (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates are based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxes levied in one year become due and payable in two installments the following year. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. In accordance with state statues, all counties were required to reassess property values prior to billing taxes in 2009: Significant delays in the reassessment process have resulted in delays in billing taxes in 2009.

The 2009 pay 2010 levy is recognized as a receivable in 2009, net of estimated uncollectible amounts of approximately 32%.

Circuit Breaker Tax Credit: In 2008, the Indiana General Assembly passed House Enrolled Act 1001 (HEA 1001) which provides a property tax credit (the Circuit Breaker Tax Credit) when the taxes on any property exceed a certain percentage of the property's assessed value. The credit is phased in over two years. For taxes payable in 2009 and 2010, the applicable percentages are as follows:

	2009	2010
Homestead (owner-occupied) residential property	1.5%	1.0%
Other residential property	2.5%	2.0%
Commercial and industrial property	3.5%	3.0%

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

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

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities when purchased of three months or less.

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

(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Expenditures for maintenance and repairs are charged to operations as incurred.

Compensated Absences: Substantially, all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Unused vacation hours do not carry over, but payments for unused vacation are due at the end of the vacation year for administrative staff. At December 31, 2009, the amount accruable for administrative staff was not deemed to be material.

Self-Insurance: The Corporation has a self-funded workmen compensation insurance, dental and vision plan. As of December 31, 2009 there were no accrued amounts for workmen's compensation, dental or vision pending claims in other current liabilities.

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

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

Restricted - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. For the government-wide financial statements, net assets are reported as restricted when constraints placed on net asset use are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. At December 31, 2009, there were no restricted net assets.

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Long-Term Debt Obligations: Bonds and notes payable are recorded at the principal amount outstanding, net of unamortized bond premium or discount. Any bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method (which approximates the effective-interest method).

(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Financial Reporting Standards: In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for periods beginning after June 15, 2009. GASB 51 establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks and computer software. Management is currently evaluating any impact of implementation for 2010.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for years beginning after June 15, 2009. GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments. Management is currently evaluating any impact of implementation for 2010.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Corporation maintains cash deposits with area financial institutions. A summary of these deposits at December 31, 2009 is as follows:

	Carrying Value	Bank Balance
On hand	$ 668	$ -
Cash deposits:		
Insured by FDIC	700,989	738,935
Insured by Indiana Public Deposits Insurance Fund	368,321	368,321
	$ 1,069,978	$ 1,107,256

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

(Continued)

NOTE 3 - CAPITAL ASSETS, NET

A summary of changes in capital assets is as follows:

	1/1/2009	Additions	Disposals	12/31/2009
Capital assets not being depreciated:				
Construction in progress	$ 25,023	$ 4,598	$ -	$ 29,621
Land	631,331	-	-	631,331
Revenue vehicles - held for sale	5,870,431	-	(5,870,431)	-
Service vehicles - held for sale	265,278	-	(265,278)	-
Total capital assets not being depreciated	$ 6,792,063	$ 4,598	$(6,135,709)	$ 660,952
Capital assets being depreciated:				
Buildings and improvements	14,208,289	-	-	14,208,289
Revenue vehicles and equipment	9,368,039	-	-	9,368,039
Service vehicles and equipment	2,002,609	-	-	2,002,609
Office furniture and equipment	1,194,151	4,675	-	1,198,826
Total capital assets being depreciated	26,773,088	4,675	-	26,777,763
Less accumulated depreciation:				
Buildings and improvements	(11,892,488)	(398,208)	-	(12,290,696)
Revenue vehicles and equipment	(11,699,732)	(702,079)	5,574,070	(6,827,741)
Service vehicles and equipment	(1,734,818)	(126,480)	265,278	(1,596,020)
Office furniture and equipment	(706,791)	(41,908)	-	(748,699)
Total accumulated depreciation	(26,033,829)	(1,268,675)	5,839,348	(21,463,156)
Total capital assets being depreciated, net	$ 739,259	$(1,264,000)	$ 5,839,348	$ 5,314,607
Total capital assets, net	$ 7,531,322	$(1,259,402)	$ 296,361	$ 5,975,559

During 2008, the Corporation reclassified certain revenue and service vehicles as held for sale since the vehicles were no longer being used in service. No depreciation was taken on these assets from that time and the assets were sold during the 2009 year.

NOTE 4 - OTHER CURRENT LIABILITIES

Other current liabilities represent a net amount that the Corporation owes to the FTA. In 2009, the Corporation requested the early retirement of the Optima bus fleet and, as a result, a residual amount equal to $307,945 is owed back to the FTA. This amount has been presented net of an additional amount owed by the FTA to the Corporation in the amount of $43,076, related to a prior error in deobligating FTA grants to the Corporation. The net amount owed to the FTA is $264,869 at December 31, 2009. As of the date of these financial statements, the FTA and the Corporation are still negotiating the terms of the repayment, and it is not clear if the payment will be satisfied from further deobligation of FTA grants in the future.

(Continued)

NOTE 5 - PENSION PLAN

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

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

Employees become vested after five years of continuous service with GPTC. Additionally, the Corporation contributes fifteen cents per payroll hour for full time employees with at least ten years of vested service. The contributions made by the Corporation amounted to $60,326 for the year ended December 31, 2009, in comparison to employee contributions totaling $39,654.

The Plan Administrator invests the plan's assets in several types of mutual funds. At December 31, 2009, the investments of the plan, at fair value, amounted to $1,787,408. These assets are excluded from these financial statements.

NOTE 6 - TEMPORARY LOAN TAX ANTICIPATION WARRANTS

The Corporation has entered into an agreement with the Indiana Bond Bank to obtain funding under a Temporary Tax Anticipation Warrant program. Amounts outstanding at December 31, 2009 total $938,038 and bear interest at 1.25%. The Corporation was authorized to participate in the Indiana Bond Bank rollover program thus allowing these borrowings to carry over into the 2010 calendar year. In March 2010, this amount was paid in full.

During the year ended December 31, 2009, the following changes occurred in temporary loan tax anticipation warrants:

	1/1/2009	Additions	Payments	12/31/2009
Tax Anticipation Warrants	$ 1,682,204	$ 938,038	$(1,682,204)	$ 938,038

(Continued)

NOTE 7 - LONG-TERM LIABILITIES

Note Payable:

During 2001, the Corporation entered into a contract with Johnson Controls, Inc. ("JCI") to remodel and upgrade various energy systems at the location on 35th Street in Gary, Indiana. The total cost of the project, as set forth in the contract, was approximately $3.2 million, and the project was completed in 2002.

As a part of the project, funds were financed through Orix Financial Services, Inc. The Corporation is required to make monthly principal payments of $18,329 plus interest at 6.19%, through May 2012, at which time all unpaid principal and interest are due. Amounts owed over the remaining term of the agreement are presented as follows:

	Principal	Interest	Total
2010	$ 195,275	$ 24,677	$ 219,952
2011	207,525	12,427	219,952
2012	90,647	1,385	92,032
	$ 493,447	$ 38,489	$ 531,936

Series 2006 Bonds Payable:

On July 27, 2006, the Corporation issued general obligation bonds, Series 2006, in the principal amount of $5,650,000. The Corporation is required to make annual principal payments of $565,000 plus interest at 4.48%, through December 2012, at which time all unpaid principal and interest are due. Amounts owed over the remaining term of the bonds are presented as follows:

	Principal	Interest	Total
2010	$ 1,130,000	$ 141,456	$ 1,271,456
2011	1,130,000	90,832	1,220,832
2012	1,180,000	40,208	1,220,208
	$ 3,440,000	$ 272,496	$ 3,712,496

Changes in long-term liabilities:

During the year ended December 31, 2009, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Series 2006 Bonds payable	$ 4,570,000	$ -	$ (1,130,000)	$ 3,440,000	$ 1,130,000
Note Payable	677,194	-	(183,747)	493,447	195,275
Total long-term liabilities	$ 5,247,194	$ -	$ (1,313,747)	$ 3,933,447	$ 1,325,275

(Continued)

NOTE 8 – REGIONAL BUS AUTHORITY ASSISTANCE

During 2008, GPTC entered into an operating agreement with the Regional Bus Authority ("RBA") whereby RBA has committed to provide funding for three regional routes/corridors that are served by GPTC. The routes/corridors are the Tri-City Express (GPTC Route 11), the South Broadway Express (GPTC 17), and the US 30 Circulator (GPTC Route 20). The RBA funds the operation by making monthly payments of $134,552 for certain regional fixed route public transportation services so as to enhance public transportation services throughout Northwest Indiana. Additional monthly payments are made to GPTC for excess route runs and gasoline/diesel overages which exceed the stated contract amount.

Stipulations within the Agreement further require GPTC to:

- Operate the services according to jointly agreed to service specifications and standards,
- Provide buses, operators, maintenance, insurance, supervision, and support and management services as jointly agreed for proper operation of the services,
- Market and cooperate with RBA marketing of services including the placement of RBA branding on and in buses assigned to the services,
- Provide insight and data on existing use of routes to determine changes for improved services,
- Provide timely reporting on all aspects of the service, and
- Coordinate other GPTC services to mutually support each other.

Total operating revenues received during 2009 under the agreement with RBA were $1,676,576.

NOTE 9 - FEDERAL, STATE AND LOCAL NON-OPERATING ASSISTANCE

Reduced fare subsidies received from the State of Indiana were $1,056,755 for December 31, 2009 for discounted services provided to the elderly, disabled, or student riders.

GPTC receives federal monies from the Department of Transportation (via FTA) under the Urbanized Area Formula grant. The grant is cost reimbursement based on projects and budgets preapproved by the FTA. Once monies have been spent on preapproved projects, GPTC requests reimbursement from the FTA. The FTA reimburses GPTC 80% of the monies spent while GPTC is responsible for a 20% local match. GPTC also received federal monies from the FTA through the American Recovery and Reinvestment Act of 2009 in which GPTC received a 100% federal match on qualifying expenditures.

Property tax revenue for 2009 includes a Lake County property tax levy of $2,111,315 which consists of $1,475,123 for operating assistance and $636,192 for debt service.

NOTE 10 - OPERATING LEASES

The Corporation leases network system consulting and equipment under non-cancelable operating leases. Total costs for such leases were $6,000 for the year ended December 31, 2009. In addition, the Corporation also leases tires for its fleet of buses through Goodyear. Amounts due on the lease are determined on an annual basis relative to actual usage. The lease with Goodyear expired in September 2010, but was renewed for an additional 5 year period at that time. Costs related to this lease were approximately $44,000 in 2009.

(Continued)

NOTE 11 - RISK MANAGEMENT

Contingencies: Various claims and lawsuits arising from the normal course of business are pending against GPTC. The nature of the GPTC's operations sometimes subjects the Corporation to litigation. General Counsel for the GPTC is of the opinion that ultimate settlement of such claims in excess of insurance coverage will not result in a material adverse effect on GPTC's financial statements as of December 31, 2009. No liability is recorded as of December 31, 2009.

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

Also included are risks of loss associated with providing insured and self – insured health, dental, and life insurance benefits to employees and retirees. Premiums have been recorded as expenditures in the appropriate funds. The GPTC provides health insurance benefits to employees through two fully insured health maintenance organizations PPO plan. The GPTC provides dental insurance benefits through two fully insured dental maintenance organizations and a self-insured dental indemnity plan. The GPTC does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. No material liabilities associated with the dental indemnity plan exist at December 31st. Lastly, GPTC covers the cost of employee life insurance policies for both active and retired employees. Life insurance coverage limits are $15,000 for active and $3,500 for retired employees, and GPTC is obligated to cover the cost of the associated premiums. Life insurance premiums for the year ended December 31, 2009 were approximately $15,000.

NOTE 12 - OTHER MATTERS

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

SUPPLEMENTAL INFORMATION

	CFDA#	Expenditures
U.S. Department of Transportation:		
Federal Transportation Administration		
Urbanized Area Formula Program	20.507	$ 1,638,845
Urbanized Area Formula Program – ARRA	20.507	748,438
Total		$ 2,387,283

Basis of Presentation

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

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

Board of Directors
Gary Public Transportation Corporation
Gary, Indiana

We have audited the financial statements of Gary Public Transportation Corporation ("Corporation") as of and for the year ended December 31, 2009, and have issued our report thereon dated the same date as this report. 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.

<u>Internal Control Over Financial Reporting</u>

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency (collection of deficiencies) in internal control over financial reporting that we consider to be a material weakness.

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 Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Finding and Questioned Costs as Finding 2009-01 to be a material weakness.

(Continued)

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Corporation in a separate letter dated December 16, 2010.

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

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

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
December 16, 2010

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

Board of Directors
Gary Public Transportation Corporation
Gary, Indiana

Compliance

We have audited the compliance of Public Transportation Corporation ("Corporation") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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

As described in Findings 2009-01, 2009-02, 2009-03 and 2009-04 in the accompanying schedule of findings and questioned costs, the Corporation did not comply with requirements regarding reporting that are applicable to its major federal program. Compliance with such requirements is necessary, in our opinion, for the Corporation to comply with requirements applicable to that program.

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

Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance

(Continued)

and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2009-01, 2009-02, 2009-03 and 2009-04 to be material weaknesses.

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

We noted certain matters that we reported to management of the Corporation in a separate letter dated December 16, 2010.

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

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
December 16, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Federal Awards

Internal Control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.507	Urbanized Area Formula Program
20.507	Urbanized Area Formula Program – ARRA

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

Auditee qualified as low-risk auditee?	_____ Yes	__X__ No

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2009-01 - Controls Over Financial Reporting

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

Indicators of material weaknesses in internal control include:

- Restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;
- Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
- Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

The individual control deficiencies, aggregated and reported as one material weakness, are identified as follows:

1. **Financial Statement Preparation** - During our audit, we concluded that management was not able to demonstrate a sufficient level of qualifications, internal controls, business processes and general ledger accounting system structure to prepare the basic financial statements in accordance with US GAAP without significant deficiencies or material weaknesses in these controls. The general ledger accounting system contributes to the control deficiencies in that management does not appear to have a full understanding of how the general ledger system (RDS) operates to be able to account for all activities and transactions flowing through the system. The current accounting system may not be compatible to meet the Corporation's long term needs for financial reporting.

   There were prior period and current period adjustments recommended that changed the financial results by material amounts. (**Material Weakness**)

2. **Compliance Reporting** - Management does not currently have appropriate controls in place to identify the financial (expenditures) and nonfinancial (grantor, CFDA #, program name) information required to prepare the Schedule of Expenditures of Federal Awards (SEFA). In addition, there is no direct way to reconcile amounts reported in federal draws representing expenditures to the general ledger account structure. It is our understanding that management selects specific transactions that it believes are eligible for federal reimbursement and submits source documentation with the federal draw requests (Echo). Those transactions are not maintained in a summary fashion or reconciled to the general ledger activity which is the official accounting record. Such information is critical in properly accounting for funds under OMB Circular A-133. (**Material Weakness**)

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

3. **Reconciliation and Segregation of Duties** - General ledger accounts are often not reconciled periodically throughout the year. As an example, we noted during our testing that bank reconciliations were performed several months after the fact. In addition, several general ledger accounts contained balances for which management could not initially provide support during the audit.

   In addition, there was often no independent review or no documentation of the segregation of duties between the preparer and the approver of account reconciliations. The lack of internal control design and effectiveness significantly reduces the likelihood that a material error will be prevented, or detected, and corrected on a timely basis.

   Segregation of duties is a primary principle in any internal control plan in order to provide adequate checks and balances. The basic goal of segregation of duties is that no one person should have excessive control over one or more critical processes. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are called incompatible duties when performed by the same individual. The list below offers some examples of incompatible duties:

   - Managing operations of an activity and record-keeping for the same activity
   - Custody of assets and recording receipt of those assets
   - Authorization of transactions and custody or disposal of assets or records
   - Operating and programming computer system

   There were several major transaction cycles that did not have appropriate segregation of duties and/or independent review and approval of financial transactions in place for all or for parts of the year. Some of these incompatible duties and internal control gaps were identified and corrected by management throughout the course of the year. However, it is important to note that without proper segregation of duties, there is an increased amount of risk in detecting errors or fraud risk. If segregation of duties is not possible (due to staffing levels), compensating controls should be put in place. (**Material Weakness**)

4. **Journal Entry Controls** - Management's current process for general journal entries lacks appropriate segregation of duties because journal entries can be initiated by several people within the Corporation and entries are not reviewed, or not documented as reviews, by an independent individual. In addition, reconciliations for various accounts are not performed by individuals independent of the journal entry process. (**Material Weakness**)

5. **Account Reconciliation** - While management performed a material and supplies inventory observation at December 31, 2009 to identify and count inventory, the results from the observation were not traced and reconciled back to amounts recorded in the general ledger. In addition, upon further inquiry during our audit, management determined that certain material amounts included in the inventory were deemed obsolete for use within the current bus system and management approved an audit adjustment of approximately $250,000 to adjust the inventory. (**Material Weakness**)

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

6. **Account Reconciliation** - While management has taken strides in the current year to record activity on an accrual basis, material errors were still noted with accounts payable at December 31, 2009. Management performed a detailed review of all subsequent cash disbursements to determine proper inclusion and/or exclusion from accounts payable at year-end, however, we noted certain invoices were improperly included in both the accounts payable detail and the manual liability accrual recorded by management during the closing process. The effect of these errors was considered material to the financial statements. (**Material Weakness**)

7. **Fraud Risk Assessment** - Management, collective with the Board, has not performed a robust risk assessment process documenting the consideration and assessment of 1) material fraud risks, and 2) risks (internal, external, or other) relevant to the preparation of financial statements in conformity with U.S. GAAP. (**Significant Deficiency**)

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

Deficiencies in the Design of Controls

- Inadequate design of controls over the preparation of the financial statements being audited.
- Inadequate design of controls over a significant account or process.
- Insufficient control consciousness within the organization; for example, the tone at the top and the control environment.
- Absent or inadequate segregation of duties within a significant account or process.
- Inadequate design of IT general and application controls that prevent the information system from providing complete and accurate information consistent with financial reporting objectives and current needs.
- Employees or management who lack the qualifications and training to fulfill their assigned functions.
- Inadequate design of monitoring controls used to assess the design and operating effectiveness of the entity's internal control over time.

Failures in the Operation of Internal Control

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

Cause: Currently, there are no formal procedures in place to facilitate a monthly close and to ensure that all procedures have been performed.

Effect: Internal financial statements may not be presented consistent with U.S. GAAP. A lack of journal entry controls and account reconciliations increases the risk of improper financial reporting, either caused by error or fraud. Federal award programs may be misreported, thus leading to programs not being managed in accordance with OMB Circular A-133.

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Questioned Costs: Not applicable.

Recommendation: Our recommendations for each of the control deficiencies noted above are as follows:

1. We recommend that management implement a standard protocol for monthly general ledger closing and account reconciliation process to prepare internal financial statements. We also recommend that management perform a "needs" assessment for the financial accounting systems. The results of the needs assessment should be compared to the capabilities of the current systems. If the current system does not meet the needs of the Corporation, then other systems should be evaluated. In the event the purchase of a new system is not practical or feasible, management should seek training to further enhance their understanding the functionality and day to day management of the system, and follow up directly with RDS support to develop internal reports that will provide balanced general ledger information that can be used for preparation of the financial statements.

2. Management should implement controls to track specifically federal expenditures on their general ledger. At a minimum, management should prepare the Schedule of Federal Expenditures at December 31st and reconcile amounts presented to underlying accounting records. In addition, the prepared schedule should be reviewed and approved by an individual independent of the preparation process.

3. We recommend that a month end closing process be implemented, focusing on the reconciliation and adjustment of all general ledger accounts. The closing process should take place within the first few weeks of the subsequent month, and supporting documentation should be maintained for all accounts reconciled. To fully segregate duties, the individual reconciling accounts should be independent of the day-to-day accounting function and reconciliations should be reviewed by an independent individual.

4. To appropriately mitigate the risk of inappropriate journal entries (either caused by unintentional error or fraud), we recommend that all journal entries should be reviewed and approved by person independent of the preparer. We recommend management implement a process for preparing and documenting the review of journal entries. Standard journal entry forms should be prepared and reviewed for all general ledger entries. These forms should include a clear description of the purpose of the entry, initials and dating by the person preparing the entry, and initials and dating by the person reviewing and approving the entry. A monthly report of general ledger entries should be reviewed and approved by an authorized person.

   Source documentation should be maintained with the journal entry reports, or should be specifically cross-referenced to the source documents stored elsewhere. Source documentation for journal entries should be clearly labeled and segregated from other files. Accounting personnel should maintain detailed source documentation for journal entries.

5. We recommend that management monitor inventory levels and periodically reconcile the general ledger with the physical counts that are taken periodically throughout the year. In addition, management should review items for obsolescence and write-off amounts as they are determined to no longer be useful or provide future value.

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

6. In reviewing the posting of invoices for proper month-end or year-end cutoff, we recommend management review the detail for the accounts payable module within the RDS system. In doing so, special focus should be given to ensure amounts are not recorded twice in the general ledger.

7. We recommend that management create a documented fraud risk detection and prevention program. We will provide an example of a format to brainstorm, evaluate and report management's consideration of fraud risks and controls designed to mitigate those specific risks. In addition, the Committee charged with governance over financial matters should be actively involved in designing controls and tests to be used in the prevention and detection of fraud.

Management Response: In 2009, management committed to updating its internal fixed assets system and related depreciation expense and implementing accrual accounting for its financial statements. On these projects we were successful. Management agrees with the auditors seven (7) recommendations in section II, controls over financial reporting, and we note that resolving these findings in a timely manner is primarily an issue of limited financial resources. In 2009, local property tax revenue declined approximately $1.9 million from 2008 and these revenues were the agencies largest and primary source for administrative and staff resources and salaries. Management will strive to resolve these findings for 2010.

SECTION III - FEDERAL AWARD FINDINGS

Finding 2009-01 - Controls Over Financial Reporting – See complete documentation of finding from Section II – Financial Statement Findings.

Finding 2009-02 – Controls Over FTA Grant Compliance

Statement of Condition: During our testing of internal controls over compliance, we noted control deficiencies related to compliance that we considered to a material weakness and a significant deficiency. The summary of these deficiencies has been reported as one combined material weakness and is presented below:

1. While specific expenditure amounts could eventually be identified and segregated for reporting on the Schedule of Federal Expenditures, management does not currently track expenditures allowable for reimbursement from the American Recovery and Reinvestment Act (ARRA) funds and other FTA grants separately within the general ledger system. (**Material Weakness**)

2. During our testing of various FTA grant reporting requirements, we noted several errors that occurred during the year. Directly related, we noted that there is no current process or control in place relative to the tracking of reporting requirements, as well as the review of reports prior to their submission. This includes DBE reports, FTA quarterly reports, and the year-end submission of the audit package to the Federal Audit Clearinghouse. (**Significant Deficiency**)

(Continued)

SECTION III - FEDERAL AWARD FINDINGS (Continued)

Criteria: Management of the Corporation is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

Effect: The control deficiencies noted above increase the risk that the Corporation may fail to comply with FTA and other federal grant requirements.

Cause: Management does not have a sufficient understanding of the general ledger system nor do they currently have the staffing resources available to assist in the review of various reports or the ECHO drawdown process.

Questioned Costs: Not applicable.

Recommendation: We recommend the following actions for each of the items noted above:

1. Separate general ledger accounts should be established to track items specifically allowable for reimbursement from ARRA funds.

2. Management should create a checklist and standard procedures for all financial and nonfinancial reports that are required to be submitted related to the FTA and ARRA grants. In doing so, management should identify the date in which the report is due, as well as individuals responsible for preparing and reviewing prior to the submission.

Management Response: While management agrees with the auditors two (2) recommendations and is committed to resolving these findings for 2010, GPTC currently follows FTA approved standard grant management procedures related to FTA and ARRA grants that identify report due dates as well as individuals responsible for preparing and reviewing documentation prior to submission..

Finding 2009-03 – Noncompliance with Reporting Requirements

Statement of Condition: FTA quarterly reports required recording expenditures for the each quarter based on when they are incurred (accrual basis). This should is independent of when cash is drawn. We noted that the quarterly reports were reported based on cash draws for that quarter. As a result, it appears that management has not completed and filed these reports accurately.

In addition, the Disadvantaged Business Enterprises (DBE) reports are reports that must be submitted within two months of the period's ending date. We noted the DBE reports (FTA and ARRA funds) for March 2009 and September 2009 were not submitted until July 2010.

Criteria: FTA grants require the proper preparation and submission of the reports listed above.

Cause: Management does not have sufficient staffing resources available to assist in the review of various reports ensuring proper preparation.

Effect: The Corporation is not on compliance with FTA grant requirements.

Questioned Costs: Not applicable.

(Continued)

SECTION III - FEDERAL AWARD FINDINGS (Continued)

Recommendation: Going forward, management should report quarterly expenditures on an accrual basis supported by general ledger detail. In addition, management should implement a tracking process and clearly assigned reporting responsibilities to a designated individual to ensure are reporting deadlines are met. In addition, copies of reports should be maintained and filed in an organized manner.

Management Response: Management agrees with the auditor's recommendation and is committed to resolving this finding for 2010. GPTC has a designated individual to ensure reporting deadlines are met and the FTA TEAM system is utilized to track report submissions.

Finding 2009-04 – Failure To Meet 12/31/08 Reporting Package Deadline

Statement of Condition: Federal regulations require the completion and submission of the annual audit in accordance with OMB Circular A-133 reporting package to the Federal Audit Clearinghouse within 9 months of the year end. Since the Corporation is a calendar year-end, the reporting package for the December 31, 2008 year end was due September 30, 2009.

From a review of the Single Audit Database, we noted that the reporting package for December 31, 2008 was submitted to the Clearinghouse on January 22, 2010. This falls outside the prescribed deadlines.

Criteria: Federal regulations require the completion and submission of the Single Audit report within 9 months of the year end.

Cause: Additional time was needed to complete the December 31, 2008 audit and prepare the financial statements for the Corporation.

Effect: The Corporation is not in compliance with federal grant requirements.

Questioned Costs: Not applicable.

Recommendation: Going forward, management should focus on coordinating it year end closing process to better facilitate the external audit process to ensure compliance with the Federal Clearinghouse deadline.

Management Response: Management agrees with the auditor's recommendation and is committed to resolving this finding for 2010. Unfortunately, due to constraints on GPTC's staffing, the reporting deadline for the December 31, 2009 year end was missed as well.

(Continued)

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding 08-01 – Internal Control Over Financial Reporting

Condition: During 2008, GPTC did not record grants receivable from FTA in 2009 relating to 2008 expenses and did not properly reverse out the prior year receivable, which does not comply with accounting principles generally accepted (GAAP). GAAP requires organizations to maintain the general ledger on an accrual basis and not a cash basis. Transactions are not properly recorded and accounted for to permit the preparation of reliable financial statements and federal reports, or demonstrate compliance with laws, regulations and other compliance requirements.

Status: While management has made progress in recording items on an accrual basis, material errors were still noted during the course of the audit. In addition, other control deficiencies, significant deficiencies, and material weaknesses were still noted relative to internal controls over financial reporting. See finding 2009-01 in this audit report.

Finding 08-02 – Internal Control Over Financial Reporting

Condition: The accounting system does not provide for separate identification of federal and non-federal transactions and allocation of transactions applicable to both acquired wholly or partly with federal and non-federal funds.

Status: As noted in Finding 2009-02, the general ledger is still not set up in a fashion that allows for the tracking of federal vs. non-federal expenditures, nor is it currently tracking ARRA reimbursable expenditures as well.

Finding 08-03 – Internal Control Over Financial Reporting (Resolved)

Condition: Equipment and inventories secured physically and periodically during year 2008 were not counted and compared to recorded amounts.

Status: During 2009, management performed a physical count of equipment and inventories. Amounts recorded were reconciled and compared with the results of the physical count.

Finding 08-04 – Internal Control Over Financial Reporting

Condition: Management does not have sufficient understanding of the accounting system to identify potential recording problems.

Status: As noted in the response to Finding 08-01 above, management did make significant progress towards improving the internal accounting within the general ledger. However, significant, material misstatements were still identified in connection with the 2009 audit and management has failed to exhibit a sufficient understanding of the RDS system. See Finding 2009-01 in this audit report.

Finding 08-05 – Technical Compliance Finding (Resolved)

Condition: The grantee must be able to implement the Urbanized Area Formula Grant Program of Projects in accordance with the grant application, Master Agreement, and all applicable laws and regulations, using sound management practices.

Status: This compliance finding was addressed by GPTC in December, 2008, and subsequently closed by the FTA on January 15, 2009. According to the FTA, GPTC is in compliance with applicable administrative procedures regarding the implementation of the Urbanized Area Formula Grant Program of Projects and all applicable laws and regulations.