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November 14, 2012

Board of Directors
Muncie Public Transportation Corporation
1300 E. Seymour Street
Muncie, IN 47302

We have reviewed the audit report prepared by Estep Burkey Simmons, LLC, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Muncie Public Transportation Corporation, as of December 31, 2011 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

FINANCIAL STATEMENTS AND AUDITORS' REPORT
MUNCIE PUBLIC TRANSPORTATION CORPORATION

December 31, 2011

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Report of Independent Certified Public Accountants

**Board of Directors
Muncie Public Transportation Corporation
Muncie, Indiana**

We have audited the accompanying statement of net assets of the Muncie Public Transportation Corporation as of and for the year ended December 31, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Muncie Public Transportation Corporation management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muncie Public Transportation Corporation as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012, on our consideration of the Muncie Public Transportation 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 read in conjunction with this report in considering the results of our audit.

Government Auditing Standards require that the Management's Discussion and Analysis, budgetary comparison information and the Required Pension Supplementary Information on pages 5 through 10 and pages 23 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

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

Estep Burkey Simmons, LLC

Muncie, Indiana
September 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Muncie Public Transportation Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

This section of the annual report of the Muncie Public Transportation Corporation presents a discussion and analysis of Muncie Public Transportation Corporation's financial performance during the year ended December 31, 2011. Please read it in conjunction with the introductory section of the report and Muncie Public Transportation Corporation's financial statements, which immediately follow this section.

Financial Highlights for 2011

- Net assets totaled \$8,727,069 at December 31, 2011.
- Net assets decreased by \$910,004 in 2011, which compares to an increase of \$924,414 in 2010.
- Total net capital assets were \$7,091,049 at December 31, 2011, a decrease of 6% from the statement of net assets at December 31, 2010 of \$7,543,931.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Muncie Public Transportation Corporation's basic financial statements. The Muncie Public Transportation Corporation's basic financial statements consist of the statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the financial statements. The financial statements are prepared on the accrual basis of accounting meaning that all expenses are recorded when incurred and all revenues are recognized when earned in accordance with accounting principles generally accepted in the United States of America.

Statement of Net Assets

The statement of net assets reports all financial and capital resources for the Muncie Public Transportation Corporation. The statement is presented in the format where assets equal liabilities plus net assets. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the balance sheet is to show a picture of the liquidity and health of the organization as of the end of the year.

The statement of net assets (the unassigned net assets) is designed to present the net available liquid (noncapital) assets, net of liabilities, for the entire Muncie Public Transportation Corporation. Net assets are reported in three categories:

- *Net Assets Invested in Capital Assets* - This component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, if any.
- *Restricted Net Assets* - This component of net assets consists of restricted assets where constraints are placed upon the assets by creditors (such as debt covenants), grantors, contributors, laws and regulations, etc.
- *Unassigned Net Assets* - This component consists of net assets that do not meet the definition of net assets invested in capital assets or restricted net assets.

Muncie Public Transportation Corporation**MANAGEMENT'S DISCUSSION AND ANALYSIS****December 31, 2011****Statement of Revenues, Expenses and Changes in Net Assets**

The statement of revenues, expenses and changes in net assets is similar to an income statement in the corporate world. This statement includes operating revenues, such as bus passenger fares and local tax revenue; operating expenses, such as costs of operating the mass transit system, administrative expenses and depreciation on capital assets; and non-operating revenue and expenses, such as grant revenue, investment income and interest expense.

The focus of the statement of revenues, expenses and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the organization for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used in operating activities, investing activities, noncapital financing activities and from capital and related financing activities. This statement also portrays the health of the Muncie Public Transportation Corporation in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant account policies, related party transactions, deposits and investments, capital assets, capital lease obligations, long-term liabilities, retirement plans and commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the Muncie Public Transportation Corporation***Statement of Net Assets***

The following table reflects a condensed summary of assets, liabilities and net assets of the Muncie Public Transportation Corporation as of December 31, 2011 and 2010:

Muncie Public Transportation Corporation
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

Statement of Net Assets - continued

Table 1

Summary of Assets, Liabilities and Net Assets

	December 31,	
	<u>2011</u>	<u>2010</u>
Assets:		
Current assets	\$ 2,083,409	\$ 1,961,957
Restricted assets	773,589	572,547
Capital assets, net	6,317,460	7,543,931
 Total assets	 <u>\$ 9,174,458</u>	 <u>\$ 10,078,435</u>
 Liabilities:		
Current liabilities	\$ 435,765	\$ 441,362
Long-term liabilities	11,624	-
 Total liabilities	 <u>447,389</u>	 <u>441,362</u>
 Net assets:		
Invested in capital assets	6,317,460	7,543,931
Restricted by MPTC for future capital improvements	773,589	572,547
Unassigned	1,636,020	1,520,595
 Total net assets	 <u>8,727,069</u>	 <u>9,637,073</u>
 Total liabilities and net assets	 <u>\$ 9,174,458</u>	 <u>\$ 10,078,435</u>

Current assets decreased by 6% to \$2,083,409. The change in current assets is primarily due to an increase in the cash balance. The increase in the cash balance is primarily due to the collection of accounts receivable.

Capital assets (net) decreased by 6% to \$6,317,460 due to minimal capital asset purchasing during the year. Current liabilities decreased 1% due to decreases in accounts payable.

Muncie Public Transportation Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

Statement of Net Assets - continued

Net assets invested in capital assets consist of capital assets, net of accumulated depreciation and amortization after disposal of assets that have outlasted useful life. This category includes asset acquisitions during the year that were funded by capital grants, disposals that have outlasted useful life, offset by depreciation expense of \$1,416,269.

Net asset balances restricted for future capital improvements include T.I.R.F. funds which must be used for the purchase of capital assets.

Unassigned net assets, which represent assets available for operations, increased by \$115,425 from the prior year.

Statement of Revenues, Expenses and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses and changes in net assets for the years ended December 31, 2011 and 2010:

Table 2

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	Years ended December 31,	
	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 3,555,808	\$ 3,443,166
Operating expenses:		
Operating expenses	6,117,073	6,016,049
Depreciation	1,416,269	1,634,085
Total operating expenses	<u>7,533,342</u>	<u>7,650,134</u>
Operating loss	(3,977,534)	(4,206,968)
Nonoperating revenues/expenses, net	3,042,530	3,214,409
Capital contributions	25,000	2,739,337
Change in net assets	<u>(910,004)</u>	<u>1,746,778</u>
Net assets - beginning of year	9,637,073	7,890,295
Net assets - end of year	<u>\$ 8,727,069</u>	<u>\$ 9,637,073</u>

Muncie Public Transportation Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

Statement of Revenues, Expenses and changes in Net Assets - continued

Operating revenues increased by \$112,642 or 3%. The increase is primarily due to increased local tax revenue. For the year ending December 31, 2011, system ridership increased by 3% over 2010.

Total operating expenses decreased \$116,792. This decrease is attributed to increases in wages, benefits, and materials and supplies, and a decrease in depreciation expense.

Labor and fringe benefits increased \$126,438 or approximately 3% from 2010. Materials and supplies decreased by \$28,822 due to more favorable pricing and newer vehicles requiring less maintenance. Casualty and liability insurance and miscellaneous expenses increased by \$15,110 or 4%.

Table 3 follows, which provides a comparison of amounts for these items:

Table 3

Operating Expenses

Years ended December 31,

	<u>2011</u>	<u>2010</u>
Labor	\$ 2,875,796	\$ 2,803,073
Fringe benefits	1,446,119	1,392,404
Contractual services	441,937	445,065
Materials and supplies	863,587	892,409
Utilities	100,879	109,453
Casualty and liability costs	238,720	243,847
Miscellaneous	150,035	129,798
Operating expense before provisions	<u>6,117,073</u>	<u>6,016,049</u>
Provision for depreciation	1,416,269	1,634,085
Total operating expenses	<u><u>\$ 7,533,342</u></u>	<u><u>\$ 7,650,134</u></u>

Muncie Public Transportation Corporation**MANAGEMENT'S DISCUSSION AND ANALYSIS****December 31, 2011****Capital Asset and Debt Administration*****Capital Assets***

The Muncie Public Transportation Corporation invested \$23,470,015 (not adjusted for inflation) in capital assets, including buildings, vehicles and other equipment as of December 31, 2011. Net of accumulated depreciation, the Muncie Public Transportation Corporation's capital assets at December 31, 2011 totaled \$6,317,460. This amount represents a net decrease (including additions and disposals, net of depreciation) of \$1,226,471 or 16% from 2010. The year-over-year decrease in capital assets resulted primarily from depreciation allowances.

Debt Administration

Short-term debt consists of a line of credit. Interest on the line of credit in the amount of \$8,282 was paid during 2011. The loan balance was paid off on July 6, 2011.

Long-term debt consists of a capital lease obligation payable. At December 31, 2011, the Muncie Public Transportation Corporation had \$17,016 in capital lease obligations outstanding. Monthly payments of \$510 are required, and the lease will mature on December 16, 2014. The capital lease obligation relates to copier equipment.

Economic Factors and Next Year's Budget

The Muncie Public Transportation Corporation adopted the 2012 Annual Budget October 20, 2011. This budget provides for operating expenses of \$7,371,532. The operating budget increase of 2.5% from the 2011 Annual Budget is primarily due to rising fuel costs needed to support ridership and increased salaries, wages and employee benefit expenses.

Budget revenues for 2012 are less than the 2011 Annual Budget by \$172,108, or 10%. This decrease from 2011 operating revenues is expected as a result of decreased local tax revenues.

Contacting the Muncie Public Transportation Corporation's Financial Management

This financial report is designed to provide our patrons and other interested parties with a general overview of the Muncie Public Transportation Corporation's finances and to demonstrate the Muncie Public Transportation Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Muncie Public Transportation Corporation's Director of Finance, 1300 East Seymour Street, Muncie, Indiana 47302.

FINANCIAL STATEMENTS

Muncie Public Transportation Corporation

STATEMENT OF NET ASSETS

December 31, 2011

ASSETS

CURRENT ASSETS

Cash	\$ 1,563,248
Accounts receivable	182,971
Materials and supplies inventory	264,921
Prepaid expenses	72,269
	<hr/>
Total current assets	2,083,409
Investments - cash	773,589
Capital assets, net of accumulated depreciation	6,317,460
	<hr/>
	7,091,049
	<hr/>
	\$ 9,174,458
	<hr/> <hr/>

LIABILITIES

CURRENT LIABILITIES

Current maturities of long-term liabilities	\$ 5,392
Line of credit	-
Accounts payable	306,394
Accrued and withheld expenses	123,979
	<hr/>
Total current liabilities	435,765

LONG-TERM LIABILITIES

Lease payable, less current maturities	11,624
	<hr/>
	447,389

NET ASSETS

Invested in capital assets	6,317,460
Restricted by MPTC for future capital improvements	773,589
Unassigned	1,636,020
	<hr/>
	8,727,069
	<hr/>
	\$ 9,174,458
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

Muncie Public Transportation Corporation

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2011

Operating revenues	
Fares, tokens and tickets	\$ 199,810
Local tax revenue	3,312,380
Miscellaneous	43,618
	<u>3,555,808</u>
Operating expenses	
Labor	2,875,796
Fringe benefits	1,446,119
Services	441,937
Materials and supplies	863,587
Utilities	100,879
Casualty and liability costs	238,720
Miscellaneous	150,035
Depreciation	1,416,269
	<u>7,533,342</u>
Operating expenses in excess of operating revenues	(3,977,534)
Nonoperating revenues (expenses)	
Operating grant revenue - federal	1,497,470
Operating grant revenue - state	1,505,642
Miscellaneous revenue	45,730
Investment income	2,961
Interest expense	(9,273)
	<u>3,042,530</u>
Change in net assets before capital contributions	(935,004)
Capital contributions	<u>25,000</u>
CHANGE IN NET ASSETS	(910,004)
Net assets - beginning of year	<u>9,637,073</u>
Net assets - end of year	<u><u>\$ 8,727,069</u></u>

The accompanying notes are an integral part of this statement.

Muncie Public Transportation Corporation

STATEMENT OF CASH FLOWS

Year Ended December 31, 2011

Cash flows from operating activities:	
Local tax revenues	\$ 3,381,855
Cash received from customers	154,222
Cash received from special events/programs	43,618
Cash disbursed to employees	(4,317,841)
Cash disbursed to suppliers for goods and services	(1,807,257)
	<hr/>
Net cash used in operating activities	(2,545,403)
Cash flows from noncapital financing activities:	
Grants	3,003,112
Miscellaneous revenue	45,730
	<hr/>
Net cash provided by noncapital financing activities	3,048,842
Cash flows from capital and related financing activities:	
Capital grants	25,000
Capital acquisitions	(189,799)
Proceeds from issuance of debt	802,025
Payments for debt	(785,009)
Interest expense	(9,273)
	<hr/>
Net cash used in capital and related financing activities	(157,056)
Cash flows from investing activities:	
Purchases of investments	(201,172)
Investment income	2,961
	<hr/>
Net cash used in investing activities	(198,211)
Net increase in cash	148,172
Cash at beginning of year	<hr/> 1,415,076
Cash at end of year	<hr/> <hr/> \$ 1,563,248

The accompanying notes are an integral part of this statement.

Muncie Public Transportation Corporation
STATEMENT OF CASH FLOWS - Continued
Year Ended December 31, 2011

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (3,977,534)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	1,416,269
Change in assets and liabilities:	
Decrease in accounts receivable	85,292
Increase in inventory	(61,405)
Decrease in prepaid expenses	2,833
Decrease in accounts payable	(12,099)
Increase in accrued and withheld expenses	1,241
	<hr/>
Net cash used in operating activities	<u><u>\$ (2,545,403)</u></u>

The accompanying notes are an integral part of this statement.

Muncie Public Transportation Corporation**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES1. Reporting Entity

The Muncie Public Transportation Corporation was incorporated on July 1, 1981. The Corporation was established as an independent governmental agency (an Indiana municipal corporation) "separate and apart from all other government agencies" to provide transit service to the Muncie, Indiana metropolitan area. It provides two modes of transportation: a fixed motorbus route and a demand-response route which services the elderly and handicapped.

The Board of Directors, a five-member group, has governing authority over the Muncie Public Transportation Corporation. The Board members are appointed by the mayor and the city council.

These financial statements include all of the financial transactions of Muncie Public Transportation Corporation.

2. Accounting Method

The financial statements of the Muncie Public Transportation Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America utilizing the accrual basis of accounting.

3. Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Due to the restricted nature of improvement reserve fund investments, the Corporation does not consider them to be cash equivalents.

4. Inventories

Inventories consist principally of bus parts and fuel which are stated at cost determined by the first-in first-out method.

5. Investments

In accordance with GASB Statement No. 31, the Corporation's general policy is to report short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. Property and Depreciation

Equipment and improvements, acquired by the Corporation with operating revenues and operating grants, are carried at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of two to forty years and charged directly to expense.

Equipment and improvements, acquired by the Corporation with capital grants, are carried at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of two to forty years and charged as a reserve against capital grants in the fund equity section of the balance sheet.

Expenditures for maintenance, repair and minor renewals are charged against income as incurred. Additions and major renewals are capitalized.

7. Revenue Recognition

The Corporation recognizes income from fares when collected and income from special routes when earned.

The Corporation's source of tax revenue comes from property taxes. Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied in September and are due and payable in two installments, on May 10 and November 10 of the following year.

Property tax revenues are recognized when they become available. This includes property tax receivables expected to be collected on the May and November due dates. Delinquent taxes are considered fully collectible; therefore, no allowance for uncollectible taxes is provided.

The sum of all property tax rates imposed on tangible personal property within a political subdivision may not exceed \$1.25 on each \$100.00 of assessed valuation on territory outside corporate city limits or \$2.00 on each \$100.00 of assessed valuation on territory inside corporate city limits.

8. Income Tax

The Muncie Public Transportation Corporation was organized on July 1, 1981 as a distinct municipal corporation and, as such, is exempt from federal and state income tax.

9. Budget

The management of Muncie Public Transportation Corporation prepares a budget based on estimates of revenues and projected costs. This budget is used to request a tax rate. The budget is open to public hearing and revision by the Department of Local Government Finance and is then approved.

Muncie Public Transportation Corporation**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued10. Compensated Absences

Employees of the Muncie Public Transportation Corporation are entitled to paid vacation and paid sick days, depending upon job classification, length of service and other factors. The vacation and sick days do not accumulate; accordingly, no accrual has been made.

11. Advertising Costs

Advertising costs are expensed as incurred and included in operating expenses. Advertising expenses totaled \$71,402 for the year ended December 31, 2011.

12. Use of Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - OPERATING GRANT

Under Sections 5 and 9 of the Urban Mass Transportation Act of 1964, the Corporation is entitled to receive financial assistance for the undertaking of an urban mass transportation operating assistance project.

NOTE C - CASH AND CONCENTRATION OF CREDIT RISK

Deposits were held by First Merchants Bank, N.A. in interest-bearing accounts.

The Corporation maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2011, the Corporation exceeded the insured limit by approximately \$2,400,930.

NOTE D - INVESTMENTS

Due to a reduction in federal funds available, the board of directors established an improvement reserve fund for the purpose of accumulating money for future anticipated capital improvements. Since 1991, assets have been set aside for this purpose. The investment is in a time deposit account with First Merchants Bank, N.A. in Muncie, Indiana and is insured or registered, with securities held by the entity or its agent in the entity's name.

As of December 31, 2011, the Corporation held the investment in a transit improvement reserve fund (T.I.R.F.) consisting of a time deposit account. The fair value of the investment approximated cost at year end and totaled \$773,589.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE D - INVESTMENTS - Continued

The following schedule summarizes the investment return for the year ended December 31, 2011.

Total investment return: Interest \$ 2,961

It is the Corporation's intent to hold the transit improvement reserve fund (T.I.R.F.) as a long-term investment.

NOTE E - CAPITAL ASSETS

Changes in capital assets for the year ending December 31, 2011 were:

	<u>Jan. 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Dec. 31, 2011</u>
Capital assets not being depreciated				
Land	\$ 268,647	\$ -	\$ -	\$ 268,647
Capital assets being depreciated				
Buildings and improvements	7,404,422	36,648	-	7,441,070
Buses and equipment	15,531,872	82,639	21,000	15,593,511
Other property and equipment	364,923	70,511	-	435,434
Total capital assets being depreciated	<u>23,301,217</u>	<u>189,798</u>	<u>21,000</u>	<u>23,470,015</u>
Less: Accumulated depreciation and amortization				
Buildings and improvements	5,974,049	153,504	-	6,127,553
Buses and equipment	9,713,886	1,244,410	21,000	10,937,296
Other property and equipment	337,998	18,355	-	356,353
Total accumulated depreciation and amortization	<u>16,025,933</u>	<u>1,416,269</u>	<u>21,000</u>	<u>17,421,202</u>
Total capital assets being depreciated, net	<u>7,275,284</u>	<u>(1,226,471)</u>	<u>-</u>	<u>6,048,813</u>
Total capital assets, net	<u>\$ 7,543,931</u>	<u>\$ (1,226,471)</u>	<u>\$ -</u>	<u>\$ 6,317,460</u>

NOTE F - LONG-TERM LIABILITIES

Long-term liabilities consist of the following at December 31, 2011.

Obligations under capital lease payable to Canon Financial Services, at A fixed interest rate of 5%. Monthly payments of \$510 are required and matures in December 2014. The obligation is secured by two copiers.	\$ 17,016
Less current maturities	<u>5,392</u>
	<u>\$ 11,624</u>

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE F - LONG-TERM LIABILITIES - Continued

Annual maturities of long-term liabilities are as follows.

Year ending December 31, 2012	\$ 5,392
2013	\$ 5,667
2014	\$ 5,957
2015	\$ 0
2016	\$ 0

NOTE G - BANK LINE OF CREDIT

The Corporation has a line of credit with a commercial bank which provides borrowings up to \$1,900,000. Advances bear a variable interest rate which was 5.00% on December 31, 2011, and is unsecured. Outstanding borrowings under this arrangement at December 31, 2011 were \$0. The line of credit expired on December 31, 2011, but was renewed until December 31, 2012.

NOTE H - RETIREMENT PLAN

Muncie Public Transportation Corporation contributes to the Public Employees' Retirement Fund (PERF), a defined benefit plan as described in Indiana state statues IC 5-10.2-2 and 5-10.3 with an annuity savings account provision. The PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by the state legislature. PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Public Employees' Retirement Fund, 1 North Capitol Avenue, Suite 001, Indianapolis, IN 46204 or by calling 1-888-526-1687.

There are two separate streams of contributions that flow into PERF to fund the two pieces of the overall benefits structure - employer and member contributions. The Corporation is responsible for funding the Defined Benefit Pension and the amount of the contribution is determined annually by an actuary. The current employer contribution rate is 4.75% of the employees' gross earnings. Members are required to contribute 3% of their gross earnings to the PERF to fund their Annuity Savings Account. Employer contributions are adopted by the Board of Trustees of the PERF based on recommendations by the actuary.

For 2011, the Corporation's annual pension cost of \$181,567 for PERF was equal to the Corporation's required contribution. The Corporation's actual contribution was \$168,326. The mandatory employer contribution is a percentage of payrolls, determined by PERF's actuary, necessary to fund the pension benefit in accordance with IC 5-10-2-2-11. The actuarial assumptions included 7% investment return, projected salary increases varies based on age of member, and 1% per year cost-of-living adjustments. The normal cost is calculated separately for each active participant and is equal to the level percentage of payroll needed as an annual contribution from entry age to retirement age to fund projected benefits. The unfunded actuarial accrued liability on any valuation date is the accumulated value of such normal costs from entry age to the valuation date less the actuarial value of assets.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE H - RETIREMENT PLAN - Continued

The effect of this valuation method is to amortize all actuarial gains and losses, resulting from experience different from that anticipated in our assumptions, over a 30-year open period. The purpose of the method is to give a smooth progression of the costs from year to year and, at the same time, provide for an orderly funding of the unfunded liabilities.

Three-Year Trend Information for PERF

Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 165,833	100%	\$ (40,069)
2010	\$ 181,567	93%	\$ (26,828)
2011	\$ 229,822	76%	\$ (28,349)

As of July 1, 2011, the most recent actuarial valuation date, the plan was 67% funded. The actuarial accrued liability for benefits was \$4,218,942, and the actuarial value of assets was \$2,815,317, resulting in an unfunded actuarial accrued liability of \$1,403,624. The annual payroll of active employees covered by the plan was \$2,890,741, and the ratio of AAL to covered payroll was 49%.

The following is the funded status information for the plan as of July 1, 2011, the most recent actuarial valuation date:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over- Funded AAL (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess of Assets Over AAL as a Percentage of Covered Payroll (UAAL) ((b - a) / c)
\$ 2,815,317	\$ 4,218,942	\$(1,403,625)	67%	\$2,890,741	49%

NOTE I - LITIGATION

The Corporation is party to various legal proceedings which arose in the normal course of operations. Although the ultimate outcome of these matters cannot be presently determined, it is the opinion of management of the Corporation that the resolution of these matters will not have a material adverse impact on the Corporation's financial position.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE J - FEDERAL GRANTS

In the normal course of operations, the Corporation receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE K - POLLUTION REMEDIATION OBLIGATION

The Corporation is subject to laws and regulations relating to the protection of the environment. In accordance with GASB 49, the Corporation's policy is to accrue environmental and cleanup-related costs when certain recognition triggers occur. Under GASB 49, liabilities and expenses would be estimated using an "expected cash flows" measurement technique. As of December 31, 2011, Muncie Public Transportation Corporation had not identified any recognition triggers that would require the recording of a liability and an expense. Muncie Public Transportation Corporation continually monitors its environmental obligations for any potential recognition triggers.

NOTE L - OPERATING LEASE COMMITMENTS

The Corporation leases tires under a noncancelable operating lease with unrelated parties, which expires in July 2014. The operating lease expense for the year ended December 31, 2011 totaled \$29,426.

The following is a schedule of anticipated future minimum rental payments required under the above noncancelable operating lease:

Year ending December 31, 2012	\$	29,065
2013		30,671
2014		32,120
2015		-0-
2016		-0-
		<u>91,856</u>
	\$	<u>91,856</u>

NOTE M - CAPITAL LEASE COMMITMENTS

Property held under capital lease, included with owned property on the balance sheet at December 31, 2011, consists of the following.

Classification: Equipment		
Copiers	\$	27,025
Less accumulated depreciation		<u>10,009</u>
Equipment under capital leases, net	\$	<u>17,016</u>

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE M - CAPITAL LEASE COMMITMENTS - Continued

The Corporation has leased copiers under an agreement which has been classified as a capital lease. The lease is noncancelable and expires in December 2014. The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments at December 31, 2011, are as follows.

Year ending December 31, 2012	\$ 6,120
2013	6,120
2014	6,120
2015	-0-
2016	-0-
	<hr/>
Total minimum lease payments	18,360
Amount representing interest	<u>1,344</u>
	<hr/>
Present value of minimum lease payments	<u><u>\$17,016</u></u>

NOTE N - SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through September 26, 2012, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2011, have been incorporated into these financial statements herein.

REQUIRED SUPPLEMENTAL INFORMATION

Muncie Public Transportation Corporation

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the
Public Employees' Retirement Fund

Year Ended December 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a - b)	Funded Ratio (b / a)	Covered Payroll (c)	Excess of Assets Over/Under AAL as a Percentage of Covered Payroll (UAAL) ((b - a) / c)
07/01/09	\$ 3,344,228	\$ 3,470,113	\$ (125,885)	96%	\$ 2,833,402	4%
07/01/10	\$ 3,195,353	\$ 3,808,762	\$ (613,409)	84%	\$ 2,773,064	22%
07/01/11	\$ 2,815,317	\$ 4,218,942	\$ (1,403,625)	67%	\$ 2,890,741	49%

SUPPLEMENTAL INFORMATION

Muncie Public Transportation Corporation
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues				
Fares, tokens and tickets	\$ 160,474	\$ 160,474	\$ 199,810	\$ 39,336
Local tax revenues	4,513,931	4,513,931	3,312,380	(1,201,551)
Operating assistance - federal	1,022,000	1,022,000	1,497,470	475,470
Operating assistance - state	1,505,642	1,505,642	1,505,642	0
Miscellaneous	3,000	3,000	43,618	40,618
	<u>7,205,047</u>	<u>7,205,047</u>	<u>6,558,920</u>	<u>(646,127)</u>
Operating expenses				
Operators' salaries and wages	1,712,894	1,712,894	1,656,035	56,859
Other salaries and wages	1,213,400	1,213,400	1,219,761	(6,361)
Fringe benefits	1,599,964	1,599,964	1,446,119	153,845
Contractual services	509,512	509,512	441,937	67,575
Fuel and lubricants	687,500	687,500	590,388	97,112
Tires and tubes	31,982	31,982	29,426	2,556
Other materials and supplies	365,250	365,250	243,773	121,477
Utilities	152,250	152,250	100,879	51,371
Casualty and liability costs	266,231	266,231	238,720	27,511
Miscellaneous	148,400	148,400	150,035	(1,635)
	<u>6,687,383</u>	<u>6,687,383</u>	<u>6,117,073</u>	<u>570,310</u>
Change in net assets - budgetary basis	<u>\$ 517,664</u>	<u>\$ 517,664</u>	441,847	<u>\$ (75,817)</u>
Reconciliation of budgetary basis to GAAP basis				
Provision for depreciation			(1,416,269)	
Capital contributions			25,000	
Investment income			2,961	
Miscellaneous revenue			45,730	
Interest expense on leasing transactions			(9,273)	
Change in net assets - GAAP basis			<u>\$ (910,004)</u>	

Muncie Public Transportation Corporation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2011

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification #</u>	<u>Federal Expenditures</u>
<u>Department of Transportation</u>			
Federal Transit Administration Operating Assistance	20.507	IN-90-X612-00	\$ 1,492,476
	20.516	IN-37-X025-00	104
	20.521	IN-57-X008-00	4,890
Federal Transit Administration Capital Assistance	20.507	IN-90-X612-00	<u>25,000</u>
Total Department of Transportation			<u>\$ 1,522,470</u>
Total expenditures of federal awards			<u>\$ 1,522,470</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Muncie Public Transportation Corporation 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 basic financial statements.

NOTE B - SUBRECIPIENTS

Muncie Public Transportation Corporation did not provide any federal awards to subrecipients.

NOTE C - NON-CASH ASSISTANCE

Muncie Public Transportation Corporation did not receive any non-cash assistance for federal awards for the year ended December 31, 2011.

NOTE D - LOANS

At year-end, Muncie Public Transportation Corporation had no loans or loan guarantees outstanding with federal awarding agencies.

Muncie Public Transportation Corporation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

1. The auditors' report expresses an unqualified opinion on the financial statements of Muncie Public Transportation Corporation.
2. No reportable conditions relating to the audit of the financial statements are reported in the "Independent Auditors' Report On The Financial Statements And The Schedule Of Federal Awards."
3. No instances of noncompliance material to the financial statements of Muncie Public Transportation Corporation were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award program are reported in the "Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133."
5. The auditors' report on compliance for Muncie Public Transportation Corporation expresses an unqualified opinion on the major federal program.
6. There were no audit findings relative to the major federal award program for Muncie Public Transportation Corporation.
7. The programs tested as major programs included:

<u>CFDA #</u>	<u>Name of Program</u>
20.507	Federal Transit Administration - Operating Assistance
20.507	Federal Transit Administration - Capital Assistance

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Muncie Public Transportation Corporation was determined to be a low-risk auditee.

Muncie Public Transportation Corporation
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2011

DEPARTMENT OF TRANSPORTATION

The audit for the year ended December 31, 2010 did not contain any findings. Accordingly, there are no prior findings listed in this schedule.

Muncie Public Transportation Corporation
 SCHEDULE OF GOVERNMENTAL FUNDING

Year Ended December 31, 2011

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification #</u>	<u>Program or Award Amount</u>
Federal Transit Administration Operating Assistance	20.507	IN-90-X612-00	\$ 1,492,476
	20.516	IN-37-X025-00	104
	20.521	IN-57-X008-00	4,890
Federal Transit Administration Capital Assistance	20.507	IN-90-X612-00	25,000
Indiana Department of Transportation			
Public Mass Transportation Fund Operating Assistance	N/A	9011MUNO	<u>1,505,642</u>
Total governmental funding			<u>\$ 3,028,112</u>

SPECIAL REPORTS



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

Board of Directors
Muncie Public Transportation Corporation
Muncie, Indiana

We have audited the financial statements of Muncie Public Transportation Corporation as of and for the year ended December 31, 2011, and have issued our report thereon dated September 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Muncie Public Transportation Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Muncie Public Transportation 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 Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muncie Public Transportation 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*.

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

Estep Burkey Simmons, LLC

Muncie, Indiana
September 26, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Board of Directors
Muncie Public Transportation Corporation
Muncie, Indiana**

Compliance

We have audited the compliance of Muncie Public Transportation Corporation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Muncie Public Transportation 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 Muncie Public Transportation Corporation's management. Our responsibility is to express an opinion on Muncie Public Transportation 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 Standard*, 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 Muncie Public Transportation 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 Muncie Public Transportation Corporation's compliance with those requirements.

In our opinion, Muncie Public Transportation Corporation complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

The management of Muncie Public Transportation 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 Muncie Public Transportation Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control compliance in accordance with 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 Entity's internal control over compliance.

A deficiency in internal control over compliance 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Estep Burkey Simmons, LLC

Muncie, Indiana
September 26, 2012

Muncie Public Transportation Corporation

EXIT CONFERENCE

PLACE: Muncie Public Transportation Corporation's Maintenance/Storage and Administrative Facility

DATE: October 11, 2012

TIME: 8:45 a.m.