STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

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

January 7, 2013

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

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 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 Indianapolis 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

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

FINANCIAL STATEMENTS

December 31, 2011

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

FINANCIAL STATEMENTS
December 31, 2011

CONTENTS

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Indianapolis Public Transportation Corporation
Indianapolis, Indiana

We have audited the accompanying statement of net assets of Indianapolis Public Transportation Corporation (IPTC) (a municipal corporation and a component unit of the consolidated City of Indianapolis-Marion County Government Reporting Entity) as of December 31, 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 IPTC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2012 on our consideration of IPTC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the Schedule of Funding Progress on page 33 to be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with accounting principles generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements 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 not a required part of the financial statements. 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 other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
May 25, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents a discussion and analysis of the Indianapolis Public Transportation Corporation's (IPTC's) financial performance for the year ended December 31, 2011. Please read this section in conjunction with the IPTC financial statements in the section that follows. For more detailed information on long-term debt activity and capital asset activity please refer to the relevant disclosures in the notes accompanying the basic financial statements.

FINANCIAL HIGHLIGHTS

- IPTC's assets exceeded its liabilities at December 31, 2011 by $57 million (net assets). Of this amount, $6 million (unrestricted net assets) may be used to meet IPTC's ongoing obligations arising from providing transportation service to the community.
- Fare revenues for 2011 increased 7 percent over that of the prior year.
- FTA capital contributions for 2011 decreased 42 percent from that of the prior year.
- FTA local operating and planning grants and preventative maintenance funding for 2011 decreased by 20 percent under that of the prior year.
- Operating expenses before depreciation decreased 6 percent from the prior year.
- Net assets increased approximately $2.3 million or 4 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

FINANCIAL STATEMENT ANALYSIS

Net Assets

The IPTC's total assets at December 31, 2011 were approximately $80 million. This represents a decrease of approximately 4 percent from the prior year. Liabilities approximated $22 million, a decrease of 20 percent for 2011. The overall decrease in liabilities is attributed to payment of ongoing obligations with no additional debt issued during the year.

Approximately $34 million, or 59 percent, of the net assets reflects investments in capital assets, less any related debt. Approximately $17 million, or 30%, of the net assets is restricted for the future acquisition of capital assets. Approximately $6 million, or 11%, may be used to meet IPTC's ongoing obligations arising from providing transportation services to the community.

TABLE 1 - NET ASSETS

	2011	2010
Assets:		
Current assets	$ 33,792,358	$ 39,233,400
Capital assets (net)	42,027,359	43,391,298
Other non-current assets	4,039,516	393,461
Total Assets	$ 79,859,233	$ 83,018,159
Liabilities:		
Current liabilities	$ 8,944,238	$ 12,239,425
Non-current liabilities	13,485,332	15,688,055
Total liabilities	22,429,570	27,927,480
Net assets:		
Invested in capital assets, net of related debt	33,984,607	33,867,492
Restricted	17,268,294	17,716,406
Unrestricted	6,176,762	3,506,781
Total net assets	57,429,663	55,090,679
Total liabilities and net assets	$ 79,859,233	$ 83,018,159

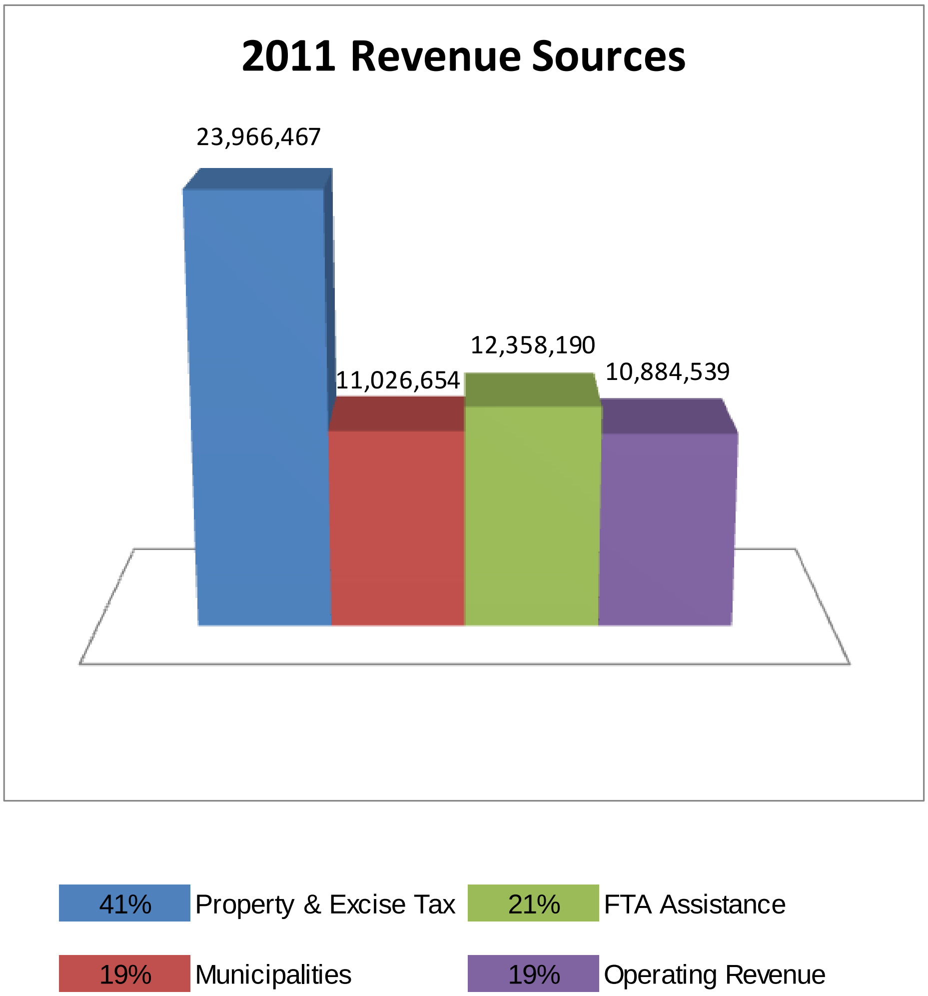
Changes in Net Assets

The change in net assets for 2011 represents an increase of approximately $2 million, or 4 percent. Of this amount, total revenues decreased approximately $6 million, or 9 percent. This decrease is mainly attributed to a $3 million decrease, or 25 percent, in federal operating assistance and a $5 million decrease, or 42%, in federal capital grants. Overall operating expenses, excluding depreciation decreased $3.3 million, or 6 percent. This decrease is attributed in part to an environmental remediation expenditure of $2 million incurred in 2010.

TABLE 2 - CHANGES IN NET ASSETS

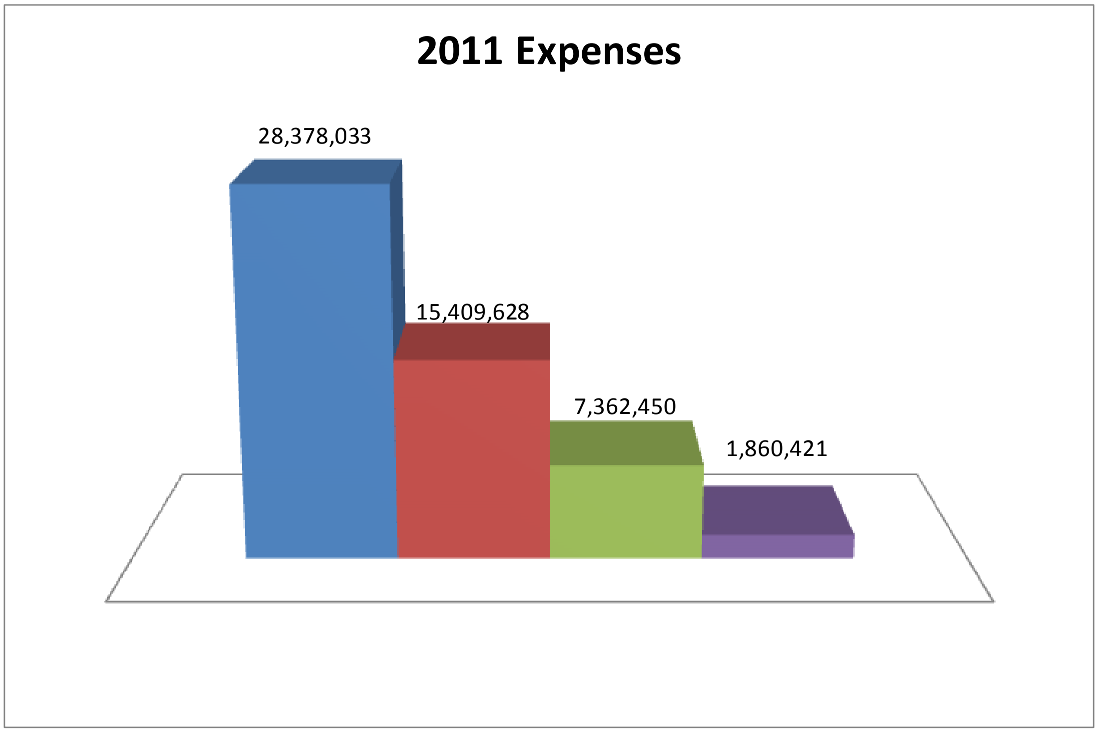
	2011	2010
Operating revenues		
Passenger fares	$ 10,401,922	$ 9,707,471
Advertising	482,617	289,068
Total operating revenues	10,884,539	9,996,539
Non-operating revenues (expenses)		
Property and excise tax	23,966,467	23,879,654
Municipalities	11,026,654	11,798,407
FTA Assistance	12,358,190	15,457,006
Contributions – capital grants	7,022,467	12,186,098
Other net revenues (expenses)	(31,543)	(1,913,323)
Total non-operating revenues	54,342,235	61,407,842
Total revenues	65,226,774	71,404,381
Operating expenses		
Transportation	28,378,033	30,175,698
Maintenance of equipment, including fuel	15,409,628	15,820,401
Administrative and general	7,362,450	8,377,011
Claims and insurance	1,860,421	1,968,982
Depreciation	9,877,258	7,200,405
Total operating expenses	62,887,790	63,542,497
Change in net assets	2,338,984	7,861,884
Total net assets, beginning of year	55,090,679	47,228,795
Total assets, end of year	$ 57,429,663	$ 55,090,679

Revenues: For 2011, total operating revenues increased approximately $888,000, or 9 percent. Non-operating revenue, excluding capital grant contributions and other revenue (expenses), decreased approximately $3.8 million, or 7 percent.



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

Expenses: Total operating expenses, excluding depreciation, are approximately $53 million for 2011. This is a decrease of $3.3 million, or 6 percent from prior year. This decrease is attributed in part to a nonrecurring environmental remediation expenditure of $2 million incurred in 2010.



54%	Transportation	14%	Administration
29%	Maintenance & Equip, including fuel	4%	Claims and Insurance

The expenses and percentages presented exclude "depreciation" expense.

CAPITAL ASSET AND DEBT ADMINISTRATION

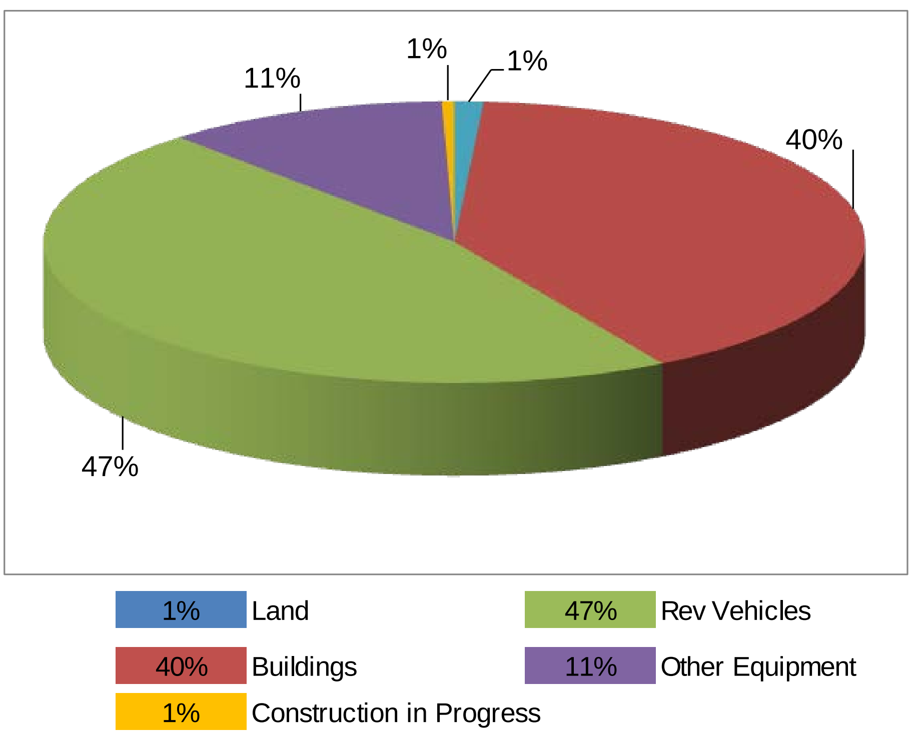
Capital Assets
As of December 31, 2011, IPTC had invested approximately $42 million in capital assets, net of accumulated depreciation. Compared to the prior year, this amount represents a decrease of approximately $1 million. The decrease is due to annual depreciation expense exceeding capital asset acquisitions during the year. Please refer to Note 3 of the financial statements included in the next section of this report for additional information regarding capital assets activity.

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

Significant capital asset acquisitions during 2011 included the following:

- Over $900 thousand was utilized to upgrade and enhance the facility, route sidewalks and shelters
- IPTC acquired 22 new Fixed Route Coaches at a combined cost of approximately $10.6 million

Percentage allocation invested in capital assets:



CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

- For several years, IPTC has been working with local officials and consulting teams to identify the best location to operate a downtown transit center. In 2009, a site evaluation was conducted at a location in close proximity to current multimodal services (i.e. trains, buses, park and ride, pedestrian and bike). Operational plans for transit services from this site were considered and validated for future development. However, due to issues with relocation plans with the current tenant, a new site will have to be identified. Preliminary plans for updated milestones should be complete by fall of 2012. Federal and Local match funding is available at this time.

Debt Disclosures

As of December 31, 2011, IPTC had approximately $14.7 million of notes and bonds payable. During 2011, bonds and notes payable were repaid pursuant to the maturity schedule of each issue. As of December 31, 2011, IPTC management reported compliance with all restrictive covenants on its borrowing agreements. Please refer to Note 4 of the financial statements included in next section of this report for additional information regarding debt activity.

CURRENTLY KNOWN FACTS

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

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

FINANCIAL STATEMENTS

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
STATEMENT OF NET ASSETS
December 31, 2011

ASSETS	
Current Assets	
Cash and cash equivalents (Note 2):	
Working capital	$ 12,127,653
Capital asset acquisition	9,873,399
Liability reserve accounts	2,001,420
Total cash and cash equivalents	24,002,472
Investments – Capital asset acquisition (Note 2)	3,776,587
Receivables:	
Federal grants	2,592,709
Operations receivables, net	747,734
Total receivables	3,340,443
Other Current Assets:	
Materials and supplies inventory, net	2,192,196
Deposits and prepaid expenses	480,660
Total other current assets	2,672,856
Total current assets	33,792,358
Noncurrent assets	
Investments – Capital asset acquisition (Note 2)	3,618,308
Bond issue cost, unamortized	159,155
Net other post-employment benefit asset (Note 10)	262,053
Capital assets (Note 3):	
Non-depreciable assets:	
Land	1,375,654
Construction in progress	583,098
Total non-depreciable assets	1,958,752
Depreciable assets:	
Buildings and improvements	48,400,538
Revenue vehicles and equipment	56,008,322
Other equipment	13,396,697
Total depreciable assets	117,805,557
Total capital assets	119,764,309
Accumulated depreciation	(77,736,950)
Capital assets, net of depreciation	42,027,359
Total noncurrent assets	46,066,875
Total assets	$ 79,859,233

See accompanying notes to financial statements.

STATEMENT OF NET ASSETS
December 31, 2011

LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts and contract services payable	$ 2,064,689
Accrued payroll and benefits	1,766,579
Deferred fare revenue	334,231
Notes payable (Note 4)	1,674,153
Bonds payable (Note 4)	1,510,000
Risk management - unpaid claim estimates (Note 5)	792,086
Federal grantor reimbursement payable	189,500
Pension arbitration liability (Note 9)	135,000
Environmental remediation liability (Note 8)	478,000
Total current liabilities	8,944,238
Noncurrent liabilities	
Notes payable (Note 4)	5,000,000
Bonds payable, net of premium (Note 4)	6,532,752
Risk management – unpaid claim estimate (Note 5)	139,780
Pension arbitration liability (Note 9)	405,000
Environmental remediation liability (Note 8)	1,407,800
Total noncurrent liabilities	13,485,332
Total liabilities	22,429,570
Net assets	
Invested in capital assets, net of related debt	33,984,607
Restricted for capital assets acquisition	17,268,294
Unrestricted	6,176,762
Total net assets	57,429,663
Total liabilities and net assets	$ 79,859,233

See accompanying notes to financial statements.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year ended December 31, 2011

Operating revenues	
Passenger fares	$ 10,401,922
Advertising	482,617
Total operating revenues	10,884,539
Operating expenses	
Transportation	28,378,033
Maintenance of equipment, including fuel	15,409,628
Administrative and general	7,362,450
Claims and insurance	1,860,421
Depreciation	9,877,258
Total operating expenses	62,887,790
Operating loss	(52,003,251)
Non-operating revenues (expenses)	
Operating assistance:	
Property and excise tax	23,966,467
Municipalities	11,026,654
FTA and local operating and planning grants, and preventative maintenance funding	12,358,190
Other net revenues (expenses) (Note 7)	(31,543)
Total non-operating revenue	47,319,768
Change in net assets before capital contribution	(4,683,483)
Contributions - capital grants	7,022,467
Change in net assets	2,338,984
Net assets, beginning of year	55,090,679
Net assets, end of year	$ 57,429,663

See accompanying notes to financial statements.

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
STATEMENT OF CASH FLOWS
Year ended December 31, 2011

Cash flows from operating activities	
Receipts from customers	$ 10,525,033
Payments for transportation	(28,378,033)
Payments for maintenance of equipment, including fuel	(16,120,686)
Payments for administrative and general	(7,426,474)
Claims and insurance paid to external parties	(1,954,801)
Net cash used by operating activities	(43,354,961)
Cash flows from noncapital financing activities	
Property and excise tax distributions	23,966,468
Assistance from municipalities	11,026,654
FTA operating assistance	12,310,565
Interest paid on notes payable	(99,455)
Payments on pension arbitration	(135,000)
Net cash provided by noncapital financing activities	47,069,232
Cash flows from capital and related financing activities	
Capital grant receipts	9,063,412
Purchases of capital assets	(10,938,786)
Proceeds from sale of capital assets	63,139
Principal paid on debt	(1,430,000)
Interest paid on debt	(362,381)
Net cash used by capital and related financing activities	(3,604,616)
Cash flows from investing activities	
Purchases of investments	(7,416,438)
Interest received on cash and cash equivalents	63,885
Net cash used by investing activities	(7,352,553)
Net decrease in cash and cash equivalents	(7,242,898)
Cash and cash equivalents, beginning of year	31,245,370
Cash and cash equivalents, end of year	$ 24,002,472

See accompanying notes to financial statements.

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (52,003,251)
Adjustments to reconcile income (loss) to net cash:	
Depreciation expense	9,877,258
Changes in assets and liabilities:	
Other receivables	(363,889)
Materials and supplies inventory	(53,367)
Deposits and prepaid expense	16,182
Accounts and contract services payable	(453,658)
Accrued payroll and benefits	(108,017)
Deferred fare revenue	4,382
Risk management	(94,380)
Other post-employment benefit obligation (asset)	(64,021)
Environmental remediation	(112,200)
Net cash used by operating activities	$ (43,354,961)
Supplemental schedule of noncash investing and financing activities:	
Capital assets in accounts payable	$ 74,362
Forgiveness of debt	$ 233,799

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: IPTC operates in one business segment, public transportation, as an enterprise fund. IPTC's purpose is to acquire, provide and maintain an urban mass transportation system for the metropolitan Indianapolis area. Indianapolis Public Transportation Corporation (IPTC) d/b/a IndyGo was formed on August 7, 1973 by City-County Council General Ordinance No. 36 as a municipal corporation, which has no stockholders, under the provisions of IC 36-9-4. Management of IPTC has determined that it is a component unit of the Consolidated City of Indianapolis-Marion County Government Reporting Entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 and is considered financially accountable to such reporting entity.

The Board of Directors of IPTC consists of seven members, three of whom are appointed by the Mayor of the City of Indianapolis (Mayor) and four of whom are appointed by the City of Indianapolis-Marion County Council (Council). The IPTC Board designates the management of IPTC, namely the General Manager, the Assistant General Managers and the other principal members of the management staff. The IPTC Board adopts the budget, tax levy, and the issuance of debt. In addition, the Council approves the budget, tax levy, and the issuance of debt.

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, IPTC applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: GASB Statement 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These net asset classifications are defined as follows:

- **Invested in capital assets, net of related debt** - This component consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component consists of external constraints placed on net assets imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. IPTC has restricted net assets for capital asset acquisition.
- **Unrestricted net assets** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

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

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

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

Cash Equivalents: For purposes of the statement of cash flows, IPTC considers all liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents. At December 31, 2011, cash equivalents consisted of demand and money market deposit accounts.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- **Capital Asset Acquisition Accounts:** Proceeds from the sale of the Indianapolis Local Public Improvement Bond Bank Bonds, Series 1999C (subsequently refunded with the 2011C issue) and Series 2002C issued by the Indianapolis Local Public Improvement Bond Bank and capital asset acquisition funds generated as a separate tax (cumulative funds) are restricted to expenditures for the acquisition of additional revenue vehicles and other capital equipment. In 2004, IPTC established a cumulative transportation fund under IC 36-9-4-48 setting forth a separate tax levy for the acquisition of capital assets.
- **Liability Reserve Accounts:** Funds deposited in these accounts are set aside from the general operations of IPTC and used only for the payment of claims arising from accidents involving IPTC that exceed $100,000.

Receivables: Management has recorded an allowance of $10,000 for operating receivables. Management has not made a provision for an allowance for uncollectible property tax receivables or federal grants receivables.

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Commitments: IPTC entered into fixed unit cost fuel contracts for the purchase of 1,515,000 gallons of fuel. Total fuel cost commitment under these contracts was $4,061,580 at December 31, 2011.

Subsequent to December 31, 2011, IPTC entered into construction commitments not to exceed $4.475 million for Phase II upgrade, bus shelter and sign service work.

(Continued)

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments are reported in the accompanying statements of net assets as of December 31, 2011 as follows:

	2011
Current assets	
Cash and cash equivalents	
Working capital	$ 12,127,653
Capital asset acquisition	9,873,399
Liability reserve	2,001,420
Investments – Capital asset acquisition	3,776,587
Noncurrent assets:	
Investments – Capital asset acquisition	3,618,308
	$ 31,397,367
Cash and cash equivalents	$ 24,002,472
Investments	7,394,895
	$ 31,397,367

Deposits: IPTC maintains cash and cash equivalents deposits with area financial institutions. A summary of these deposits at December 31, 2011 is as follows:

	2011 Carrying Value	2011 Bank Balance
On hand	$ 1,000	$ -
Cash deposits:		
Insured by FDIC	2,105,829	2,114,802
Insured by Indiana Public Deposits Insurance Fund	21,895,643	22,091,967
	$ 24,002,472	$ 24,206,769

During the year ended December 31, 2011, IPTC held interest bearing demand deposit accounts and interest bearing savings accounts with Indiana financial institutions. Demand deposits are fully insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposits Insurance Fund.

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

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

(Continued)

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The nature of IPTC deposits and investments do not present high exposure to interest rate market risks due to their short term nature. At December 31, 2011, IPTC had the following investments and maturities:

Investment Type	Fair Value	------ Maturities (in Years) ------ Less than 1	1 - 3
Certificates of Deposit	$ 1,510,088	$ 1,008,790	$ 501,298
Government-backed Mortgage Notes	5,884,807	2,767,798	3,117,009
	$ 7,394,895	$ 3,776,588	$ 3,618,307

Credit Risk and Custodial Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Custodial credit risk is the risk that the IPTC will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. At December 31, 2011, the IPTC's investments, along with their respective ratings from Moody's Investor Services, were as follows:

Investment Type	Fair Value	Credit Rating
Certificates of Deposit	$ 1,510,088	Unrated
Government-backed Mortgage Notes	5,884,807	Aaa
	$ 7,394,895	

Concentration of Credit Risk: Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. IPTC places no limit on the amount IPTC may invest in any one issuer. The following table shows investment in issuers and the representative percentage of total investments at December 31, 2011:

Investment Type	Fair Value	% (rounded)
Certificates of Deposit		
Ally Bank	$ 250,795	3%
BMW Bank North America	250,503	3%
Beal Bank	250,042	3%
Wright Express Financial Services Corp	250,280	3%
National Bank of Indianapolis	508,468	7%
Government-back Mortgage Notes		
Federal Home Loan Banks	2,066,490	28%
Freddie Mac	1,758,487	24%
Fannie Mae	2,059,830	28%
	$ 7,394,895	

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

(Continued)

NOTE 3 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets as follows:

	Balance January 1, 2011	Changes During Year Additions	Changes During Year Reductions	Balance December 31, 2011
Capital Assets Cost:				
Non-Depreciable Assets:				
Land	1,375,654	-	-	1,375,654
Construction in progress*	3,990,141	8,461,394	(11,868,437)	583,098
	5,365,795	8,461,394	(11,868,437)	1,958,752
Depreciable Assets:				
Buildings and improvements	$ 49,184,035	$ 940,462	$ (1,723,959)	$ 48,400,538
Revenue vehicles and equipment	48,848,325	11,002,340	(3,842,343)	56,008,322
Other equipment	15,057,959	-	(1,661,262)	13,396,697
	113,090,319	11,942,802	(7,227,564)	117,805,557
	$ 118,456,114	$ 20,404,196	$ (19,096,001)	$ 119,764,309

	Balance January 1, 2011	Changes During Year Additions	Changes During Year Reductions	Balance December 31, 2011
Accumulated Depreciation:				
Depreciable Assets:				
Buildings and improvements	$ (31,033,223)	$ (2,285,516)	$ 1,723,959	$ (31,594,780)
Revenue vehicles and equipment	(35,627,440)	(5,463,380)	3,819,903	(37,270,917)
Other equipment	(8,404,153)	(2,128,362)	1,661,262	(8,871,253)
	$ (75,064,816)	$ (9,877,258)	$ 7,205,124	$ (77,736,950)

	Balance January 1, 2011	Changes During Year Additions	Changes During Year Reductions	Balance December 31, 2011
Capital Assets, Net:				
Non-Depreciable Assets:				
Land	1,375,654	-	-	1,375,654
Construction in progress*	3,990,141	8,461,394	(11,868,437)	583,098
	5,365,795	8,461,394	(11,868,437)	1,958,752
Depreciable Assets:				
Buildings and improvements	$ 18,150,812	$ (1,345,054)	$ -	$ 16,805,758
Revenue vehicles and equipment	13,220,885	5,538,960	(22,440)	18,737,405
Other equipment	6,653,806	(2,128,362)	-	4,525,444
	38,025,503	2,065,544	(22,440)	40,068,607
	$ 43,391,298	$ 10,526,938	$ (11,890,877)	$ 42,027,359

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

(Continued)

NOTE 4 - DEBT OBLIGATIONS

The following disclosure provides detail on IPTC debt obligations. At December 31, 2011, IPTC noncurrent debt consisted of bonds payable and notes payable. Changes were as follows:

	Balance January 1, 2011	Changes During Year Additions	Changes During Year Reductions	Balance December 31, 2011	Noncurrent	Current
Bonds payable	$ 9,265,000	$ -	$ (1,430,000)	$ 7,835,000	$ 6,325,000	$ 1,510,000
Bond premium	258,805	-	(51,053)	207,752	207,752	-
Notes payable	6,872,906	35,046	(233,799)	6,674,153	5,000,000	1,674,153
	$ 16,396,711	$ 35,046	$ (1,714,852)	$ 14,716,905	$ 11,532,752	$ 3,184,153

Bonds Payable: Bonds consist of the Indianapolis Local Public Improvement Bond Bank Bonds, Series 2009C and 2002C. The amounts outstanding at December 31, 2011 are as follows:

	2011
Series 2002C	$ 3,000,000
Series 2009C	4,835,000
	7,835,000
Less: Current portion	1,510,000
Noncurrent portion	$ 6,325,000

Series 2002C Bonds - The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2002C, dated December 18, 2002, were issued in the aggregate principal amount of $5,000,000, at a premium of $49,626. The Series 2002C Bonds are being used to provide local matching funds for FTA grants to acquire capital assets. Bond proceeds were also used to redeem the 2001 Bond Anticipation Note. The Series 2002C Bonds bear interest rates varying from 4% to 5.125%, payable on January 10 and July 10 commencing July 10, 2004 and have serial maturities from 2006 through 2017. The Series 2002C Bonds maturing on or after January 10, 2013 may be redeemed on or after January 10, 2012, at the redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the date of redemption.

Effective February 15, 2012, IPTC executed an agreement to refund the Series 2002C bonds with Series 2012 bonds. There was a change in interest rate but no change in maturities of bonds.

NOTE 4 - DEBT OBLIGATIONS (Continued)

Debt service requirements for the bonds are:

Years Ending December 31	Principal	Interest	Total
2012	$ 280,000	$ 145,206	$ 425,206
2013	275,000	133,726	408,726
2014	265,000	121,764	386,764
2015	305,000	109,971	414,971
2016	1,875,000	96,094	1,971,094
	$ 3,000,000	$ 606,761	$ 3,606,761

Bond interest expense on Series 2002C Bonds was $157,206 for the year ended December 31, 2011.

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

The Series 2009C Bonds bear interest rates varying from 2.75% to 4%, payable on January 10 and July 10 commencing January 10, 2010 and have serial maturities through 2015. The Bonds are not subject to optional redemption prior to maturity dates. Debt service requirements to maturity for the outstanding bonds are as follows:

Years Ending December 31	Principal	Interest	Total
2012	$ 1,230,000	$ 174,100	$ 1,404,100
2013	1,315,000	131,050	1,446,050
2014	1,415,000	91,600	1,506,600
2015	875,000	35,000	910,000
	$ 4,835,000	$ 431,750	$ 5,266,750

Bond interest expense on Series 2009C Bonds was $205,175 for the year ended December 31, 2011.

<u>Notes Payable</u>: Notes payable consists of two agreements described as follows:

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

(Continued)

NOTE 4 - DEBT OBLIGATIONS (Continued)

Debt service requirements to maturity for this outstanding note are as follows:

Years Ending December 31	Principal	Interest	Total
2012	$ -	$ 100,000	$ 100,000
2013	5,000,000	100,000	5,100,000
	$ 5,000,000	$ 200,000	$ 5,200,000

Note interest expense on this obligation was $99,455 for the year ended December 31, 2011.

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

In 2007, an agreement was executed to extend the loan. As extended, the loan was payable no later than December 31, 2010. Concurrent with the extension of the agreement, the City expressly waived repayment of interest that had been accrued from date of origination through the date of extension of the agreement amounting to $105,500.

During 2010, IPTC entered into an agreement with the City of Indianapolis that replaces the 2007 loan extension agreement. The new loan agreement extends the due date to no later than December 31, 2011, provides for interest at 2% per annum and provides a mechanism for repayment by investing in capital assets that are mutually beneficial to the City of Indianapolis and IPTC. An amendment to this agreement was effective in 2011 which changed due date to no later than December 31, 2012. Interest expense for the year ended December 31, 2011 was $35,046 and has been accrued in the balance of the loan. During 2011, IPTC paid expenditures totaling $233,799 for the completion of improvement projects to the benefit of the City of Indianapolis. The balance of the loan at December 31, 2011 was $1,674,153. Principal and interest of $1,674,153 and $34,000, respectively, are due in 2012.

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

Legislation enacted under HEA 1001-2008 led to widespread changes in property tax law. Under this law, the amount of property taxes a parcel is liable for is limited to 1.5% of its assessed value (for residential), 2.5% (non-homestead residential), 3.5% (all other property) for Pay 2010, dropping to 1%, 2%, and 3% respectively for Pay 2011.

(Continued)

NOTE 4 - DEBT OBLIGATIONS (Continued)

While the terms of HEA 1001-2008 were being finalized, the state also phased in "trending" where property values are to be adjusted on an annual basis so that the next general reassessment would not be as arduous. Trending began in 2007 which caused new collection delays, and in a few counties – including Marion – continued questions of reliability caused the governor to order a reassessment in questionable counties. In 2010, IPTC issued tax anticipation warrants series 2010D for the first 6 months of the year, to provide short-term operating cash at an interest rate of 1.48%. There was no tax anticipation warrant activity for the last 6 months for the year ended December 31, 2010. There was no tax anticipation warrant activity during 2011.

NOTE 5 - RISK MANAGEMENT

IPTC is exposed to various risks of loss related to theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which IPTC carries commercial insurance and maintains certain risks. Detail of the claims liability, based upon the requirements of GASB Statement No. 10, is provided below. This requires that a liability for claims be reported if information before the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the liability can be reasonably estimated. The liability is estimated based upon historical experience. There is no significant incremental claim adjustment expense, salvage, or subrogation attributable to this liability. Activity for the year ended December 31, 2011 and 2010 was as follows:

	2011	2010
Unpaid claims, beginning of year	$ 1,026,246	$ 1,014,680
Incurred claims and changes in claim estimates	1,151,356	960,497
Claim payments	(1,245,736)	(948,931)
Unpaid claims, end of year	$ 931,866	$ 1,026,246
Current portion	792,086	876,496
Noncurrent portion	139,780	149,750
Unpaid claims, end of year	$ 931,866	$ 1,026,246

(Continued)

NOTE 5 - RISK MANAGEMENT (Continued)

On December 23, 1986, IPTC's Board of Directors approved the establishment of a non-reverting fund (Liability Reserve Accounts) for payment of personal injury and property damage claims in excess of $100,000. For claims in excess of $100,000, the amount of the claim exceeding $100,000 will be paid out of the liability reserve accounts. Claims up to $100,000 will be paid out of the general accounts of IPTC. IPTC is self-insured for worker's compensation without limitation and is entirely self-insured for personal injury. It is completely self-insured for property damage to coaches.

Estimates of expected losses to IPTC resulting from personal injuries for which claims have been filed or for which it is anticipated claims will be filed, have been recorded in the financial statements. Litigation occasionally results from such claims. When, in the opinion of management, such litigation will result in a loss to IPTC, provision is made in the financial statements for loss expected upon resolution. There were no significant reductions in insurance coverage during 2011 and there were no settlements that exceeded insurance coverage during 2011 for those risks that IPTC purchased insurance.

NOTE 6 - OPERATING LEASES

IPTC is obligated under certain leases through June 2014 for the Transit Store premise, parking premises and maintenance and office equipment that are accounted for as operating leases. Lease rental expense for the year ended December 31, 2011 was $147,349. A schedule of future minimum operating lease payments required that have initial or remaining lease terms in excess of one year as of December 31, 2011:

Year Ending December 31:	
2012	$ 75,762
2013	61,306
2014	15,407
2015	-
Thereafter	-
	$ 152,475

(Continued)

NOTE 7 - OTHER NON-OPERATING REVENUE (EXPENSE)

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

	2011
Other revenues:	
Investment income	$ 100,071
Miscellaneous	301,636
Gain on sale of capital assets	59,847
Pass-through grants for sub-recipients	828,450
	1,290,004
Other expenses:	
Interest - payable from restricted debt service assets	(311,328)
Interest - payable from unrestricted assets	(134,501)
Amortization of bond issue costs	(36,273)
Bad debt expense	(10,995)
Pass-through grants to sub-recipients	(828,450)
	(1,321,547)
	$ (31,543)

NOTE 8 - ENVIRONMENTAL REMEDIATION LIABILITY

The IPTC has had discussions with the Indiana Department of Environmental Management regarding a contamination remediation issue traced to leaking underground storage tanks. The cost of remediation is based upon current site knowledge/conditions, past remediation experience of site's with similar environmental issues, and the current IDEM regulations. The estimate is based on the expectation that a remediation system(s) will be required from the site to meet closure criteria under the IDEM RISC Program's Industrial Closure Criteria with an environmental deed restriction placed on the property. Activity for the year ended December 31, 2011 was as follows:

	2011
Environmental remediation liability, beginning of year	$ 1,998,000
Decreases/Payments	(112,200)
Unpaid claims, end of year	$ 1,885,800
Current portion	$ 478,000
Noncurrent portion	1,407,800
Unpaid claims, end of year	$ 1,885,800

NOTE 9 - BENEFIT PLANS

Defined Contribution Plan: IPTC maintains a defined-contribution plan, the Indianapolis Public Transportation Corporation Pension Plan, for the benefit of substantially all of its employees. All employees who are regularly scheduled to work at least 30 hours per week become eligible for the Plan on the first day of the month following commencement of employment or completion of any applicable probationary period. The Plan may be amended by action of IPTC's Board of Directors, subject to any applicable collective bargaining agreement obligations. The plan requires the employees to contribute 3.5% of their compensation. For some employees, the employer contributes 3.5% to this plan and for other employees the employer contributes 3% to this plan and .5% to the defined benefit plan pursuant to an arbitration award. Participant contributions for 2011 were $636,681. Employer contributions for 2011 were $548,148.

Deferred Compensation Plan: IPTC maintains an IRS Code Section 457 plan, the Indianapolis Public Transportation Corporation Deferred Compensation Plan. Employees become eligible to participate in the Plan on the first day of the second month following commencement of employment or completion of any applicable probationary period. The Plan allows for employee contributions only. Plan assets are held in a trust separate from IPTC's assets. Contributions by employees to the Plan were approximately $202,958 for the year ended December 31, 2011.

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

IPTC, prior to this award, was not obligated to make any further contributions to this plan. Subsequent to this award, IPTC was obligated to contribute $1,500,000 to the plan over a ten-year period ending 2015. IPTC contributed $135,000 to the plan in 2011 and has reported a pension arbitration liability totaling $540,000 at December 31, 2011.

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

Current portion	$ 135,000
Noncurrent portion	405,000
	$ 540,000

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

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

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

(Continued)

NOTE 9 - BENEFIT PLANS (Continued)

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

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

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

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

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

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

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

Annual Pension Cost and Net Pension Obligation: Because the Plan was frozen as of December 31, 1997, and because, before the freeze, the contribution requirements were not actuarially determined, many of the accounting and disclosure requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, are not applicable. There are no annual required contributions for 2011 and no annual pension cost. IPTC has determined that it has no pension liability (asset) at transition as defined by GASB Statement No. 27.

(Continued)

NOTE 9 - BENEFIT PLANS (Continued)

The Plan's obligations exceeded the market value of its assets by approximately $808,081 at December 31, 2011. This obligation remains that of the Plan rather than of IPTC. In the event that the Plan does not attain full funding, pursuant to the Plan agreement, the net assets of the Plan will first be applied to repay individual employee contributions in excess of any employee contributions previously disbursed. The remainder of net assets will be distributed in the proportion that each employee's actuarially determined accrued benefit has to the accrued benefits of all covered employees.

The Plan's obligation was determined as part of the December 31, 2011 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included an 8% investment rate of return (net of administrative expenses) and projected salary increases of 0% due to the Plan's freeze as of December 31, 1997. No inflation component has been considered. The projected benefit equals the employee's actual benefit (based on total compensation through December 31, 1997) with no future benefit accruals. Three-year trend information for the plan reflects that IPTC has no annual pension cost or net pension obligation.

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

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

Year Ended December 31	Annual Required Contribution	Actual Contribution Made	Percentage Contributed
2011	$ 68,660	$ 132,400	193 %
2010	79,447	156,700	197%
2009	89,377	149,700	167%

(Continued)

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

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

Annual required contribution	$ 68,660
Interest on net OPEB obligation (asset)	(7,921)
Adjustment to annual required contribution	7,640
Annual OPEB cost	68,379
Contributions made	132,400
Increase in net OPEB obligation (asset)	(64,021)
Net OPEB obligation (asset) – beginning of year	(198,032)
Net OPEB obligation (asset) – end of year	$ (262,053)

Funded Status and Funding Progress: As of December 31, 2011, the actuarial accrued liability for benefits was $1,546,200 and the actuarial value of assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $1,546,200. The covered payroll (annual payroll of active employees covered by the plan) was not applicable, and the ratio of the UAAL to the covered payroll was not applicable.

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

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

(Continued)

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

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

Measurement Date:	December 31, 2011
Discount Rate:	4.0% effective annual rate
Inflation Rate:	0.0%
Compensation Increases:	Compensation amounts are assumed to increase 3% per year

Retirement Rates:

Age	%
55-59	5%
60-61	10%
62	30%
63-64	15%
65-69	40%
70+	100%

Spouse Coverage:	80% of employees and retirees are assumed to have a covered spouse in retirement (no dependent children are assumed)
Spouse Age:	Female spouses are assumed to be three years younger than male spouses

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Funding Progress: Retiree Health and Life Insurance Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
12/31/2011	$ 0	$ 1,546,200	$ 1,546,200	0%	N/A	N/A
12/31/2010	0	1,582,900	1,582,900	0%	N/A	N/A
12/31/2009	0	1,784,400	1,784,400	0%	N/A	N/A

SUPPLEMENTARY INFORMATION

INDIANAPOLIS PUBLIC TRANSPORTATION CORPORATION
(A COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS
MARION COUNTY GOVERNMENT REPORTING ENTITY)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2011

Federal Grantor/ Program or Cluster Title	CFDA Number	Grant Number for Pass-through	Federal Expenditures	Amounts Awarded to Subrecipients
Department of Transportation				
Federal Transit Administration				
Direct programs:				
Federal Transit Cluster:				
Capital Investment Grants	20.500		$ 4,458,865	$ -
	20.500	IN040022	149,250	149,250
Formula Grants	20.507		12,646,608	-
	20.507	IN95X006	360,000	360,000
Formula Grants - ARRA	20.507		1,740,127	-
Total Federal Transit Cluster			19,354,850	509,250
Transit Services Programs Cluster:				
Job Access – Reverse Commuter Grant	20.516		405,962	-
	20.516	IN37X029	69,860	69,860
New Freedom Program	20.521		129,094	-
	20.521	IN57X012	249,340	249,340
Total Transit Services Programs Cluster			854,256	319,200
Total Expenditures of Federal Awards			$ 20,209,106	$ 828,450

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of IPTC, for the year ended December 31, 2011 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - MATCHING COSTS

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

NOTE 3 - SUBRECIPIENTS

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

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

Board of Directors
Indianapolis Public Transportation Corporation
Indianapolis, Indiana

We have audited the financial statements of Indianapolis Public Transportation Corporation (IPTC) as of and for the year ended December 31, 2011, and have issued our report thereon May 25, 2012. We conducted our audit 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 the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accountants.

Internal Control Over Financial Reporting

Management of Indianapolis Public Transportation Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered IPTC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IPTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the IPTC's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency in internal control over financial reporting (11-01). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
May 25, 2012

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

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

Board of Directors
Indianapolis Public Transportation Corporation
Indianapolis, Indiana

Compliance

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

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

In our opinion, IPTC 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 IPTC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered IPTC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of IPTC's internal control over compliance.

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

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

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
May 25, 2012

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

December 31, 2011 Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	___ yes	_x_ no
Significant deficiencies identified that are not considered to be material weaknesses?	_x_ yes	___ none reported
Noncompliance material to financial statements noted?	___ yes	_x_ no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	___ yes	_x_ no
Significant deficiencies identified that are not considered to be material weaknesses?	___ yes	_x_ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported In accordance with section 510(a) of Circular A-133	___ yes	_x_ no

Identification of major programs:

CFDA 20.500/20.507/20.507ARRA - Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs:		$ 606,273
Auditee qualified as low-risk auditee?	___ yes	_x_ no

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

11-01 Controls over Inventory (Significant Deficiency)

Condition and Criteria: During performance of year-end inventory test counts, we noted that there were two discrepancies between the counts noted on the price book and the amounts noted on the meter system tickets for motor oil. We noted that the adjustments to the inventory accounts for these metered items are performed once a year.

Cause and Effect: The above condition appears to be the result of human error and timing of updates of inventory counts in the system. If these amounts are not updated regularly, IPTC could be using outdated data for determination of its current inventory usage. Also, by not updating the counts regularly, the balance being presented in the monthly internal statements may be misleading to the users when an adjustment is necessary at year end to correct the balance.

Questioned Costs: None

Recommendations: We recommend that since the tickets are printed daily, the inventory be updated in the system at least monthly in order to track usage and ensure that the proper item numbers are being used regularly. These monthly updates and the year-end update should be reviewed by someone independent of the physical inventory counts to ensure that the proper amounts are being recorded and the correct units are being used in the system (i.e. quarts in the system instead of gallons as noted on the tickets).

Management Response and Corrective Action Plan: Management acknowledges the finding. The employees responsible for physical inventory counts will conduct an inventory of "motor oil" at 7:00 AM on the first business day of each month and report this inventory to Accounting. Accounting will review the physical inventory counts to the daily tickets looking for discrepancies. Subsequent to review, the adjustment will be recorded each month by Accounting.

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

None

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

There were no prior year findings.