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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 23, 2017

Board of Directors
Muncie Public Transportation Corporation
1300 East 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, 2015 to December 31, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditors' Report, the financial statements included in the report present fairly the financial condition of Muncie Public Transportation Corporation, as of December 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

MUNCIE PUBLIC TRANSPORTATION CORPORATION

December 31, 2015

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statement of net position of the Muncie Public Transportation Corporation as of and for the year ended December 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note O to the financial statements, the Muncie Public Transportation Corporation adopted new accounting guidance, GASB Statement 68 *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Proportionate Share of the Net Pension Liability, Schedule of Contributions, and Budgetary Comparison Information, as listed in the Table of Contents, 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.

Other Information

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, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Muncie Public Transportation Corporation.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, 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* in considering Muncie Public Transportation Corporation's internal control over financial reporting and compliance.

Estep Burkey Simmons, LLC

Muncie, Indiana
September 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Muncie Public Transportation Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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, 2015. Please read it in conjunction with the introductory section of the report and Muncie Public Transportation Corporation's financial statements and accompanying notes, which immediately follow this section.

Financial Highlights for 2015

- Net position totaled \$5,921,497 at December 31, 2015.
- Net position decreased by \$1,579,292 in 2015, which compares to a decrease of \$1,225,023 in 2014 (as restated).
- Current liabilities increased 18% at the end of the year.

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 position, statement of revenues, expenses and changes in net position, 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 Position

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

- *Net Position Invested in Capital Assets* - This component of net position 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 Position* - This component of net position 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 Position* - This component consists of net position that does not meet the definition of net position invested in capital assets or restricted net position.

Muncie Public Transportation Corporation**MANAGEMENT'S DISCUSSION AND ANALYSIS****December 31, 2015****Statement of Revenues, Expenses and Changes in Net Position**

The statement of revenues, expenses and changes in net position 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 position is the change in net position. 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 Position***

The following table reflects a condensed summary of assets, liabilities and net position of the Muncie Public Transportation Corporation as of December 31, 2015 and 2014:

Muncie Public Transportation Corporation
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

Statement of Net Position - continued

Table 1

Summary of Assets, Liabilities and Net Position

December 31,

	2015	2014 Restated*
Assets:		
Current assets	\$ 446,252	\$ 583,568
Restricted assets	653,137	652,564
Capital assets, net	7,212,734	8,124,246
Total assets	8,312,123	9,360,378
 Total deferred outflows of resources	 1,230,200	 752,905
Liabilities:		
Current liabilities	554,601	469,433
Long-term liabilities	2,491,621	1,535,662
Total liabilities	3,046,222	2,005,095
 Total deferred inflows of resources	 574,604	 607,399
Net Position:		
Invested in capital assets	7,212,734	8,124,246
Retricted by MPTC for future capital improvements	653,137	652,564
Unassigned	(1,944,374)	(1,276,021)
 Total net position	\$ 5,921,497	\$ 7,500,789

*A restatement due to implementation of GASB 68 was made in the balance of net pension liability and Deferred outflows and inflows of resources.

Current assets decreased by 24% to \$446,252. The change in current assets is primarily due to an 82% decrease in cash balances due to using temporary cash investments rather than borrowing from a line of credit.

Restricted assets increased by \$573 to \$653,137 due to interest earned.

Capital assets decreased \$911,512 due to depreciation expenses exceeding capital acquisitions.

Current liabilities increased by 18% primarily due to borrowings on a line of credit and increases in accrued payroll.

Muncie Public Transportation Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

Statement of Net Position - continued

Long-term liabilities have increased by \$955,959 due to an increase in net pension liability.

Net position 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 \$1,389,294.

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

Unassigned net position, which represent assets available for operations, decreased by \$668,353 from the prior year.

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects a condensed summary of the revenues, expenses and changes in net position for the years ended December 31, 2015 and 2014:

Table 2

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Years ended December 31,	
	<u>2015</u>	<u>2014 Restated*</u>
Operating revenues	\$ 3,446,375	\$ 3,388,311
Operating expenses:		
Operating expenses	7,166,144	7,394,815
Depreciation	1,389,294	1,326,655
Total operating expenses	<u>8,555,438</u>	<u>8,721,470</u>
Operating loss	(5,109,063)	(5,333,159)
Nonoperating revenues/expenses, net	3,309,502	3,104,485
Capital contributions	220,269	1,003,651
Change in net position	<u>(1,579,292)</u>	<u>(1,225,023)</u>
Net position - beginning of year (restated)	7,500,789	8,725,812
Net position - end of year	<u>\$ 5,921,497</u>	<u>\$ 7,500,789</u>

Muncie Public Transportation Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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

*A restatement due to implementation of GASB 68 was made in the balance of net pension liability and deferred outflows and inflows of resources.

Operating revenues increased by \$58,064 or approximately 2%. The increase comprised of a 4% increase in passenger fares, a 28% increase in advertising revenues and a 1% increase in local tax revenues.

Total operating expenses decreased \$228,671. This decrease is attributed to increases in labor, fringe benefits, services, utilities and casualty and liability insurance, and decreases in supplies, pension expenses and miscellaneous expenses.

Labor, services, utilities and casualty and liability insurance increased \$260,838. Fringe benefits, supplies and miscellaneous expenses decreased by \$489,509.

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

Table 3

Operating Expenses

Years ended December 31,

	<u>2015</u>	<u>2014</u>
Labor	\$ 2,999,025	\$ 2,930,098
Fringe benefits	2,174,092	2,559,197
Contractual services	679,567	639,875
Materials and supplies	891,550	986,911
Utilities	106,429	105,586
Casualty and liability costs	189,090	37,714
Miscellaneous	126,391	135,434
Operating expenses before provision	<u>7,166,144</u>	<u>7,394,815</u>
Provision for depreciation	1,389,294	1,326,655
Total operating expenses	<u><u>\$ 8,555,438</u></u>	<u><u>\$ 8,721,470</u></u>

Muncie Public Transportation Corporation**MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2015

Capital Asset and Debt Administration*Capital Assets*

The Muncie Public Transportation Corporation invested \$27,199,091 (not adjusted for inflation) in capital assets, including buildings, vehicles and other equipment as of December 31, 2015. Net of accumulated depreciation, the Muncie Public Transportation Corporation's capital assets at December 31, 2015 totaled \$7,212,734. This amount represents a net decrease (including additions and disposals, net of depreciation) of \$911,512 from 2014. The year-over-year net decrease in capital assets resulted primarily from depreciation expense. Additional information on Muncie Public Transportation Corporation's capital assets can be found in Note F on page 23 of this report.

Debt Administration

Short-term debt consists of a line of credit. Interest on the line of credit in the amount of \$82,065 was paid during 2015. The line of credit balance was \$80,000 at December 31, 2015.

Long-term debt consisted of a capital lease obligation. At December 31, 2015, the Muncie Public Transportation Corporation had \$19,606 in capital lease obligations outstanding. The capital lease obligation relates to copier equipment with monthly payments of \$499 required through August 2019.

Economic Factors and Next Year's Budget

The Muncie Public Transportation Corporation adopted the 2016 Annual Budget October 5, 2015. This budget provides for operating expenses of \$7,893,509. The operating budget is the same as the 2015 Annual Budget.

Budget revenues for 2016 are more than the 2015 Annual Budget by \$706,160, or 10%. This increase from 2015 operating revenues is expected as a result of increased federal operating assistance.

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 POSITION

December 31, 2015

ASSETS	
CURRENT ASSETS	
Cash	\$ 32,311
Accounts receivable	19,162
Materials and supplies inventory	283,915
Prepaid expenses	110,864
Total current assets	<u>446,252</u>
NON-CURRENT ASSETS	
Investments - cash	653,137
Capital assets, net of accumulated depreciation	7,212,734
Total non-current assets	<u>7,865,871</u>
TOTAL ASSETS	<u>8,312,123</u>
DEFERRED OUTFLOWS OF RESOURCES	
Defined benefit pension items	1,230,200
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,230,200</u>
LIABILITIES	
CURRENT LIABILITIES	
Current maturities of long-term liabilities	5,124
Line of credit	80,000
Accounts payable	253,570
Accrued and withheld expenses	215,907
Total current liabilities	<u>554,601</u>
LONG-TERM LIABILITIES	
Net pension liability	2,477,139
Lease payable, less current maturities	14,482
Total long-term liabilities	<u>2,491,621</u>
TOTAL LIABILITIES	<u>3,046,222</u>
DEFERRED INFLOWS OF RESOURCES	
Defined benefit pension items	574,604
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>574,604</u>
NET POSITION	
Net investment in capital assets	7,212,734
Restricted by MPTC for future capital improvements	653,137
Unrestricted	(1,944,374)
TOTAL NET POSITION	<u>\$ 5,921,497</u>

The accompanying notes are an integral part of this statement.

Muncie Public Transportation Corporation

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2015

Operating revenues	
Fares, tokens and tickets	\$ 238,513
Local tax revenue	3,165,118
Miscellaneous	42,744
	<u>3,446,375</u>
Operating expenses	
Labor	2,999,025
Fringe benefits	2,174,092
Services	679,567
Materials and supplies	891,550
Utilities	106,429
Casualty and liability costs	189,090
Miscellaneous	126,391
Depreciation	1,389,294
	<u>8,555,438</u>
Operating expenses in excess of operating revenues	(5,109,063)
Nonoperating revenues (expenses)	
Operating grant revenue - federal	1,904,201
Operating grant revenue - state	1,452,679
Miscellaneous revenue	15,131
Investment income	1,502
Gain on disposal of assets	19,379
Interest expense	(83,393)
	<u>3,309,499</u>
Change in net position before capital contributions	(1,799,564)
Capital contributions	<u>220,272</u>
CHANGE IN NET POSITION	(1,579,292)
Net position - beginning of year, as restated	<u>7,500,789</u>
Net position - end of year	<u><u>\$ 5,921,497</u></u>

The accompanying notes are an integral part of this statement.

Muncie Public Transportation Corporation

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

Cash flows from operating activities:	
Local tax revenues	\$ 3,159,962
Cash received from customers	239,485
Cash received from special events/programs	42,744
Cash disbursed to employees	(4,672,356)
Cash disbursed to suppliers for goods and services	<u>(2,042,252)</u>
Net cash used in operating activities	(3,272,417)
Cash flows from noncapital financing activities:	
Grants	3,356,880
Miscellaneous revenue	<u>15,131</u>
Net cash provided by noncapital financing activities	3,372,011
Cash flows from capital and related financing activities:	
Capital grants	220,272
Capital acquisitions	(477,782)
Sale of capital assets	19,379
Payments for capital lease obligation	(4,875)
Proceeds from line of credit	4,820,000
Payments on line of credit	(4,740,000)
Interest expense	<u>(83,393)</u>
Net cash used in capital and related financing activities	(246,399)
Cash flows from investing activities:	
Investment income	<u>1,502</u>
Net cash provided by investing activities	1,502
Net decrease in cash	(145,303)
Cash at beginning of year	<u>830,751</u>
Cash at end of year	<u><u>\$ 685,448</u></u>

The accompanying notes are an integral part of this statement.

Muncie Public Transportation Corporation
STATEMENT OF CASH FLOWS - Continued
Year Ended December 31, 2015

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (5,109,063)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	1,389,294
Pension expense	(1,370,550)
Change in assets, deferred outflows of resource, deferred inflows of resources and liabilities:	
Increase in accounts receivable	(5,156)
Decrease in inventory	972
Increase in prepaid expenses	(4,376)
Increase in deferred outflows of resources - pensions	(1,230,200)
Decrease in accounts payable	(49,225)
Increase in accrued and withheld expenses	54,144
Increase in net pension liability	2,477,139
Increase in deferred inflows of resources - pensions	574,604
	<hr/>
Net cash used in operating activities	<u>\$ (3,272,417)</u>

The accompanying notes are an integral part of this statement.

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

December 31, 2015

NOTE A - SUMMARY OF ACCOUNTING POLICIES**1. Reporting Entity**

The Muncie Public Transportation Corporation (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 provides 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 and Financial Statement Presentation

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.

For the purpose of presentation in the Statement of Revenues, Expenses and Changes in Net Position, operating revenues include fares, tokens and tickets; local tax revenue; and other miscellaneous revenues related to operations such as advertising revenue, voucher revenue, and miscellaneous refunds. Operating expenses include all labor and fringe benefits, services, materials and supplies, insurance and depreciation expense related to the operating revenues. Nonoperating revenues are comprised of grant revenue, investment income, gains on disposal of assets and miscellaneous other nonoperating sources of revenue. Nonoperating expenses consist primarily of interest expense and losses on the disposal of assets.

When both restricted and unrestricted resources are available for use, it is Muncie Public Transportation Corporation’s policy to use restricted resources first, then unrestricted resources as they are needed.

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.

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. Muncie Public Transportation Corporation’s deposit policy does not specify custodial credit risk criteria. At December 31, 2015, Muncie Public Transportation Corporation had deposit balances in the amount of \$679,691, which includes the improvement reserve fund investments. Muncie Public Transportation Corporation had deposit balances in interest-bearing checking accounts at December 31, 2015, reported as cash and investments - cash.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

3. Cash Equivalents - continued

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories. The insured bank balances include investments - cash, which is comprised of the improvement reserve fund.

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.

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes Muncie Public Transportation Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes Muncie Public Transportation Corporation to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of or interest of or interest in an open-end, no-load, management-type investment company or investment trust registered under the provision of the Federal Investment Company Act of 1940, as amended. The investments shall be made through depositories designated by the State Board of Finance as depositories for state deposits under Indiana Code 5-13-9.5. The money market mutual fund must be rated as AAA, or its equivalent, by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Services, Inc. or its successor. The investment is considered to have a stated final maturity of one day.

Additionally, Muncie Public Transportation Corporation may enter into repurchase agreements (including standing repurchase agreements commonly known as sweep accounts) with depositories designated by the State Board of Finance as depositories for state investments involving Muncie Public Transportation Corporation's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States, a United States government agency, an instrumentality of the United States, or federal

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

5. Investments - continued

government-sponsored enterprise. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value. The repurchase agreement is considered to have a final maturity of one day.

Credit Risk and Custodial Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2015, Muncie Public Transportation Corporation did not hold any investments as defined above.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Muncie Public Transportation Corporation must follow state statute and limit the stated final maturities of the investments per Indiana Code. Muncie Public Transportation Corporation's investment policy requires the Treasurer to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and investment operating funds primarily in short-term securities, if applicable.

Foreign Currency Risk

Muncie Public Transportation Corporation's investment policy prohibits the purchase of foreign investments.

6. Accounts Receivable

The Corporation's trade receivables have a contractual maturity of one year or less, and therefore are exempted from the disclosure requirements of FASB ASU 2010-20. Trade receivables are considered to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

7. 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 net position section of the Statement of Net Position.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

7. Property and Depreciation - continued

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

8. 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.

9. 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.

10. 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.

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The defined benefit pension items, reported in both the deferred outflows and inflows of resources, results from differences between expected and actual experience which is amortized over the average expected

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

11. Deferred Outflows/Inflows of Resources - continued

remaining services lives of the plan, net differences between projected and actual investment earnings which is deferred and amortized over five years, changes in assumptions, and changes in an employer's proportionate share and the differences between and employers contributions and the proportionate share of the collective contributions which are both amortized over the average expected remaining services lives of the plan.

12. 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.

13. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Public Employees Retirement Fund (PERF), administered by the Indiana Public Retirement System (INPRS), and the related additions to/deductions from PERF's fiduciary net position have been determined on the same basis as they are reported by PERF. For this purpose, the financial information have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations. Investments are reported as follows: Pooled and non-pooled investments are reported at fair value. Short-term investments are reported at cost. Fixed income and equity securities are generally valued based on published market prices, quotations from national security exchanges and securities pricing services, or modeling techniques that include market observable inputs required to develop a fair value. Alternative investments are valued based on quoted market prices or using current estimates of fair value in the absence of readily determinable public market values. Derivative instruments are marked to market daily.

New Accounting Pronouncements

Muncie Public Transportation Corporation adopted the new accounting standards GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI) for material items. In accordance with the statement, Muncie Public Transportation Corporation has reported a \$1,370,550 change in accounting principle adjustment to Unrestricted Net Position as of January 1, 2015.

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

December 31, 2015

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued14. Advertising Costs

Advertising costs are expensed as incurred and included in operating expenses. Advertising expenses totaled \$80,162 for the year ended December 31, 2015.

15. Risk Management

Muncie Public Transportation Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; natural disasters; and medical benefits to employees and dependents.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; natural disasters; and medical benefits to employees and dependents are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

16. Net Position Restricted for Transit Improvement Reserve Fund

The Statement of Net Position reports \$653,137 of restricted net position, which is restricted by Muncie Public Transportation Corporation for anticipated future capital improvements.

17. 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, 2015, the Corporation exceeded the federally insured limit by approximately \$429,655. The amount that exceeded the insured limit is fully insured by the State of Indiana Public Deposit Insurance Fund.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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, 2015, 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 \$653,137.

The following schedule summarizes the investment return for the year ended December 31, 2015.

Total investment return: Interest	<u>\$ 813</u>
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It is the Corporation's intent to hold the transit improvement reserve fund (T.I.R.F.) as a long-term investment.

NOTE E - FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE E - FAIR VALUE MEASUREMENTS - Continued

The following tables set forth financial assets measured at fair value in the Statement of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of December 31, 2015, respectively:

	<u>Fair Value</u>	<u>Level 1</u>
Assets:		
Investments	\$ 653,137	\$ 653,137
Liabilities:		
Long-term liabilities	\$ 19,606	\$ 19,606

Fair values for investments and long-term liabilities are determined by reference to quoted market prices and other relevant information generated by market transactions.

NOTE F - CAPITAL ASSETS

Changes in capital assets for the year ending December 31, 2015 were:

	<u>Jan. 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Dec. 31, 2015</u>
Capital assets not being depreciated				
Land	\$ 268,647	\$ -	\$ -	\$ 268,647
Capital assets being depreciated				
Buildings and improvements	7,873,288	148,173	-	8,021,461
Buses and equipment	19,126,925	329,609	729,890	18,726,644
Other property and equipment	450,986	-	-	450,986
Total capital assets being depreciated	27,451,199	477,782	729,890	27,199,091
Less: Accumulated depreciation and amortization				
Buildings and improvements	6,468,428	118,944	-	6,587,372
Buses and equipment	12,723,484	1,259,450	729,890	13,253,044
Other property and equipment	403,688	10,900	-	414,588
Total accumulated depreciation and amortization	19,595,600	1,389,294	729,890	20,255,004
Total capital assets being depreciated, net	7,855,599	(911,512)	-	6,944,087
Total capital assets, net	\$ 8,124,246	\$ (911,512)	\$ -	\$ 7,212,734

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE G - LONG-TERM LIABILITIES

Long-term liabilities consist of the following at December 31, 2015.

Obligations under capital lease payable to De Lage Landen Public Finance, LLC, at a fixed interest rate of 5%. Monthly payments of \$499 are required and matures in August 2019. The obligation is secured by four copiers.	\$ 19,606
Less current maturities	<u>5,124</u>
	<u>\$ 14,482</u>

Annual maturities of long-term liabilities are as follows.

Year ending December 31, 2016	\$ 5,124
2017	\$ 5,386
2018	\$ 5,662
2019	\$ 3,434
2020	\$ -0-

NOTE H - BANK LINE OF CREDIT

The Corporation has a line of credit with a commercial bank which provides borrowings up to \$3,575,848. Advances bear a variable interest rate which was 5.25% on December 31, 2015, and is unsecured. Outstanding borrowings under this arrangement at December 31, 2015 were \$80,000. The line of credit expired on December 31, 2015, but was renewed until December 31, 2016.

NOTE I - RETIREMENT PLAN

Public Employees' Retirement Fund

Plan Description

Muncie Public Transportation Corporation contributes to the Public Employees' Retirement Fund (PERF) Hybrid Plan - a cost-sharing multiple-employer defined benefit pension plan, which includes an annuity savings account provision, administered by the Indiana Public Retirement System (INPRS) based on Title 35 of IAC 21-1-1, 35 IAC 21-1-2 and amended by IC 5-10.2-2-11(b). The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. The Indiana Public Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for INPRS. This report may be reviewed online at www.in.gov/inprs/annualreports.htm, or by calling 1-888-526-1687, or by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE I - RETIREMENT PLAN - Continued

Benefits Provided

All employees of Muncie Public Transportation System are eligible and automatically enrolled in PERF if they work a full-time schedule (40 hours per week) or are regularly scheduled and working 20 or more hours per week or at least 1040 hours per year. PERF provides retirement, disability, and survivor benefits to plan members and beneficiaries. The PERF Hybrid Plan retirement benefit consist of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account (ASA). Pension benefits (non ASA) vest after 10 years of creditable service. Members are immediately vested in their annuity savings account. A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement. There are various retirement options available and for more information refer to the INPRS website at <http://www.in.gov/inprs/>. The annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. Average annual compensation is the highest 20 calendar quarters of salary in a covered position. The percentage of the pension benefit at retirement remains the same for the member's lifetime. The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly.

Contributions

Muncie Public Transportation Corporation is obligated by state statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. During the year 2015, Muncie Public Transportation Corporation was required to contribute 11% of covered payroll to the defined benefit pension. Muncie Public Transportation Corporation's actual and required contribution to the plan for the fiscal year ended June 30, 2015 was \$312,786. A contribution of 3% of covered payroll is required into the annuity savings account portion. Muncie Public Transportation Corporation elected to make this contribution on behalf of its members in 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, Muncie Public Transportation Corporation reported a liability of \$2,477,139 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Muncie Public Transportation Corporation's proportion of the net pension liability was based on a projection of Muncie Public Transportation Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, Muncie Public Transportation Corporation's proportion was 0.06%, which was not a significant increase from its proportion measured as of December 31, 2014.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE I - RETIREMENT PLAN - Continued

For the year ended December 31, 2015, Muncie Public Transportation Corporation recognized pension expense of \$811,449. At December 31, 2015, Muncie Public Transportation Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 106,330	\$ 5,123
Net difference between projected and actual investment	417,676	232,966
Change of assumptions	209,402	
Changes in proportion and differences between employer contributions and proportionate share of contributions	81,318	23,729
Pension expense	415,474	
Contributions		312,786
	<u> </u>	<u> </u>
Total	<u>\$ 1,230,200</u>	<u>\$ 574,604</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31, 2016	\$ 180,969
2017	180,969
2018	86,551
2019	207,107
2020	0-
	<u> </u>
	<u>\$ 655,596</u>

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using member census data as of June 30, 2014 and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2015. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2014 to June 30, 2015. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation are presented below:

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE I - RETIREMENT PLAN - Continued

Experience study date	Period of 4 years ended June 30, 2014
Inflation	2.25%
Cost of living increase	1.00%
Future salary increases	2.50% - 4.25%, including inflation
Investment rate of return	6.75%, net of investment expense, including inflation
Mortality rates	Based on the RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2016

The long-term return expectation on investments for the INPRS defined benefit retirement plan was determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and long-term expected real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Basis
		Long-Term Expected Real Rate of Return
Public Equity	22.5%	5.3%
Private Equity	10.0%	5.6%
Fixed Income - Ex Inflation-Linked	22.0%	2.1%
Fixed Income - Inflation-Linked	10.0%	0.7%
Commodities	8.0%	2.0%
Real Estate	7.5%	3.0%
Absolute Return	10.0%	3.9%
Risk Parity	10.0%	5.0%
	<u>100.0%</u>	

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE I - RETIREMENT PLAN - Continued

Discount Rate. The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State of Indiana (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75%). Based on those assumptions, the defined benefit pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Muncie Public Transportation Corporation's share of the net pension liability to changes in the discount rate. The following table presents Muncie Public Transportation Corporation's proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what Muncie Public Transportation Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
Muncie Public Transportation Corporation's share of the net pension liability	\$ 3,653,992	\$ 2,477,139	\$ 1,500,136

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued INPRS 2015 Comprehensive Annual Financial Report found at <http://www.in.gov/inprs/annualreports.htm>.

NOTE J - 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.

NOTE K - 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.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE L - 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, 2015, 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 M - OPERATING LEASE COMMITMENTS

The Corporation leases tires under a noncancelable operating lease with unrelated parties, which expires on June 30, 2017, with an option for two additional years. The operating lease expense for the year ended December 31, 2015 totaled \$83,825.

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

Year ending December 31, 2016	\$ 73,443
2017	37,442
2018	0-
2019	0-
2020	0-
	<u>110,885</u>
	<u>\$ 110,885</u>

NOTE N - CAPITAL LEASE COMMITMENTS

Property held under capital lease, included with owned property on the balance sheet at December 31, 2015, consists of the following.

Classification: Equipment	
Copiers	\$ 26,552
Less accumulated depreciation	<u>6,946</u>
Equipment under capital leases, net	<u>\$ 19,606</u>

The Corporation has leased copiers under an agreement which has been classified as a capital lease. The lease is noncancelable and expires in August 2019. The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments at December 31, 2015, are as follows.

Muncie Public Transportation Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE N - CAPITAL LEASE COMMITMENTS - Continued

Year ending December 31, 2016	\$ 5,988
2017	5,988
2018	5,988
2019	3,493
2020	<u>0-</u>
Total minimum lease payments	21,457
Amount representing interest	<u>1,851</u>
Present value of minimum lease payments	<u><u>\$ 19,606</u></u>

NOTE O - RESTATEMENTS

Due to a change in accounting principle, net position as of December 31, 2014 has been restated as follows for the implementation of GASB 68 as amended by GASB 71.

For the financial statements, there is a decrease of \$1,370,550 in unrestricted net position. This was a result of an adjustment made in the net pension liability.

Net Position as previous reported at December 31, 2014:	\$ 8,871,339
Prior period adjustment:	
Net pension liability (measurement date as of June 30, 2014)	(1,516,056)
Deferred outflows defined benefit pension items	752,905
Deferred inflows defined benefit pension items	<u>(607,399)</u>
Total prior period adjustment	<u>(1,370,550)</u>
Net Position as restated, January 1, 2015:	<u><u>\$ 7,500,789</u></u>

NOTE P - SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through September 30, 2016, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2015, have been incorporated into these financial statements herein.

REQUIRED SUPPLEMENTAL INFORMATION

Muncie Public Transportation Corporation

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement Fund

Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportion of the net pension liability	0.06%	0.06%	0.06%
Proportionate share of the net pension liability	2,477,139	1,516,056	2,082,350
Covered-employee payroll	2,913,394	2,816,762	2,697,964
Proportionate share of the net pension liability as a percentage of covered-employee payroll	85.03%	53.82%	77.18%
Plan fiduciary net position as a percentage of the total pension liability	77.35%	84.29%	78.79%

Note:

* Effective for 2015 GASB 68 was implemented. GASB 68 requires disclosure of a 10-year schedule. The financial information was not available for the years prior to 2013. The amounts presented for each fiscal year were determined as of June 30.

Muncie Public Transportation Corporation

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Contributions
Public Employees' Retirement Fund

Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 312,786	\$ 297,889
Contributions in relation to the contractually required contribution	<u>312,786</u>	<u>297,889</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,913,394	\$ 2,816,762
Contributions as a percentage of covered-employee payroll	10.74%	10.58%

Note:

* Effective for 2015 GASB 68 was implemented. GASB 68 requires disclosure of a 10-year schedule. The financial information was not available for the years prior to 2014. The amounts presented for each fiscal year were determined as of June 30.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes in benefit terms: None

Changes in assumptions:

- (1) The inflation assumption changed from 3.00% to 2.25% per year.
- (2) The future salary increase assumption changed from an aged-based table ranging from 3.25% to 4.50% to an age-based table ranging from 2.50% to 4.25%.
- (3) The mortality assumption changed from the 2013 IRS Static Mortality projected five (5) years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Tables projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report.
- (4) The retirement assumption was updated based on recent experience. Additionally, for actives who are eligible for early retirement (reduced benefit), 33% are assumed to commence benefits immediately and 67% are assumed to commence benefits at unreduced retirement eligibility. 100% of actives were assumed to commence benefits immediately upon early retirement eligibility in the prior year.
- (5) The termination assumption was updated based on recent experience. For members earning less than \$20,000, the tables were updated from a select and ultimate table to just an ultimate table as there is little correlation with service. For members earning more than \$20,000, the tables were updated from using a 5-year select period to a 10-year select period to correspond with the vesting schedule.
- (6) The disability assumption was updated based on recent experience.
- (7) The ASA Annuitization assumption was updated from 50% of members assumed to annuitize their ASA balance to 60% of members assume to annuitize their ASA balance prior to January 1, 2017.

Muncie Public Transportation Corporation
BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues				
Fares, tokens and tickets	\$ 230,000	\$ 230,000	\$ 238,513	\$ 8,513
Local tax revenues	3,000,620	3,000,620	3,165,118	164,498
Operating assistance - federal	1,862,117	1,862,117	1,904,201	42,084
Operating assistance - state	1,452,679	1,452,679	1,452,679	0
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>42,744</u>	<u>41,744</u>
	6,546,416	6,546,416	6,803,255	256,839
Operating expenses				
Operators' salaries and wages	1,789,800	1,789,800	1,790,906	-1,106
Other salaries and wages	1,307,994	1,307,994	1,208,119	99,875
Fringe benefits	1,864,654	1,864,654	2,174,092	(309,438)
Contractual services	681,855	681,855	679,567	2,288
Fuel and lubricants	840,000	840,000	655,131	184,869
Tires and tubes	31,982	31,982	36,313	(4,331)
Other materials and supplies	320,395	320,395	200,106	120,289
Utilities	128,750	128,750	106,429	22,321
Casualty and liability costs	266,231	266,231	189,090	77,141
Miscellaneous	<u>127,800</u>	<u>127,800</u>	<u>126,391</u>	<u>1,409</u>
	<u>7,359,461</u>	<u>7,359,461</u>	<u>7,166,144</u>	<u>193,317</u>
Change in net position - budgetary basis	<u>\$ (813,045)</u>	<u>\$ (813,045)</u>	(362,889)	<u>\$ 450,156</u>
Reconciliation of budgetary basis to GAAP basis				
Provision for depreciation			(1,389,294)	
Capital contributions			220,272	
Investment income			1,502	
Miscellaneous revenue			15,131	
Gain on disposal of assets			19,379	
Interest expense on leasing transactions			<u>(83,393)</u>	
Change in net position - GAAP basis			<u>\$ (1,579,292)</u>	

SUPPLEMENTAL INFORMATION

Muncie Public Transportation Corporation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2015

<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 - Federal Transit Administration</u>			
Direct Program			
Federal Transit Cluster:			
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	IN-90-X676-00	\$ 1,896,550
Passed-through to subrecipients			0
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	IN-90-X663-00	151,472
Passed-through to subrecipients			0
Total Federal Transit Cluster			<u>2,048,022</u>
Transit Services Program Cluster:			
New Freedom Program	20.521	IN-57-X008-00	7,651
Passed-through to subrecipients			0
Total Department of Transportation - FTA - Direct			<u>2,055,673</u>
Pass-through Program from			
Indiana Department of Transportation Enhanced Mobility of Seniors and Individuals with Disabilities Program	20.513	9014MUNI	68,800
Passed-through to subrecipients			0
Total Pass-through Indiana Department of Transportation			<u>68,800</u>
Total Transit Services Program Cluster			<u>76,451</u>
Total Department of Transportation - Federal Transit Administration			<u>2,124,473</u>
Total Expenditures of Federal Awards			<u>\$ 2,124,473</u>

Muncie Public Transportation Corporation**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****Year Ended December 31, 2015****NOTE A - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards (the Schedule) has been prepared from Muncie Public Transportation Corporation's accounting records and is presented on the accrual basis of accounting in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The purpose of the Schedule is to present a summary of those activities of Muncie Public Transportation Corporation for the year ended December 31, 2015, which have been partially financed by the U.S. government (federal awards). Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Muncie Public Transportation Corporation has not elected to use the 10% de minimis indirect cost rate. For purposes of the Schedule, federal awards include all assistance entered into directly between Muncie Public Transportation Corporation and the federal government and between Muncie Public Transportation Corporation and other primary recipients of federal government funding (pass-through). Amounts included in the Schedule include the federal portions of the awards. Because the Schedule presents only a selected portion of the activities of Muncie Public Transportation Corporation, it is not intended to, and does not, present either the statement of net position, changes in net position, or cash flows of Muncie Public Transportation Corporation.

NOTE B - NON-CASH FEDERAL AWARDS

Muncie Public Transportation Corporation did not receive any non-cash assistance for federal awards for the year ended December 31, 2015.

NOTE C - SUBRECIPIENTS

The Uniform Guidance defines subrecipients 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. During the year ended December 31, 2015, Muncie Public Transportation Corporation provided \$-0- in expenditures to subrecipients.

Muncie Public Transportation Corporation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2015

1. The auditors' report expresses an unmodified 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 unmodified opinion on the major federal program.
6. There were no audit findings relative to the major federal award program for Muncie Public Transportation Corporation required to be reported.
7. The programs tested as major programs included:

<u>CFDA #</u>	<u>Name of Program</u>
20.507	Federal Transit - Formula Grants (Urbanized Area Formula Program)

8. The threshold for distinguishing Types A and B programs was \$750,000.
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, 2015

DEPARTMENT OF TRANSPORTATION - FEDERAL TRANSIT ADMINISTRATION

The audit for the year ended December 31, 2014 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, 2015

<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>
<u>Department of Transportation - Federal Transit Administration</u>			
Direct Program			
Federal Transit Cluster:			
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	IN-90-X676-00	\$ 1,896,550
Passed-through to subrecipients			0
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	IN-90-X663-00	151,472
Passed-through to subrecipients			<u>0</u>
Total Federal Transit Cluster			2,048,022
Transit Services Program Cluster:			
New Freedom Program	20.521	IN-57-X008-00	7,651
Passed-through to subrecipients			<u>0</u>
Total Department of Transportation - FTA - Direct			2,055,673
Pass-through Program from			
Indiana Department of Transportation Enhanced Mobility of Seniors and Individuals with Disabilities Program	20.513	9014MUNI	68,800
Passed-through to subrecipients			<u>0</u>
Total Pass-through Indiana Department of Transportation			<u>68,800</u>
Total Transit Services Program Cluster			<u>76,451</u>
Total Department of Transportation - Federal Transit Administration			<u>2,124,473</u>
Total Expenditures of Federal Awards			<u>2,124,473</u>
<u>Indiana Department of Transportation</u>			
Public Mass Transportation Fund Operating Assistance	N/A	9015MUNO	1,452,679
Passed-through to subrecipients			<u>0</u>
Total governmental funding			<u>\$ 3,577,152</u>



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

Independent Auditors' Report

Board of Directors
Muncie Public Transportation Corporation
Muncie, Indiana

We have audited, 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, the financial statements of Muncie Public Transportation Corporation as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2016.

Internal Control over Financial Reporting

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

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. 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.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

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

Estep Burkey Simmons, LLC

Muncie, Indiana
September 30, 2016



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited Muncie Public Transportation Corporation's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Muncie Public Transportation Corporation's major federal programs for the year ended December 31, 2015. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Muncie Public Transportation Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Muncie Public Transportation Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, Muncie Public Transportation Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Estep Burkey Simmons, LLC

Muncie, Indiana
September 30, 2016

Muncie Public Transportation Corporation

EXIT CONFERENCE

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

DATE: December 8, 2016

TIME: 8:45 a.m.