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September 10, 2018

Board of Directors  
Indianapolis Public Transportation Corporation (IndyGo)  
1501 W. Washington St.  
Indianapolis, IN 46222

We have reviewed the audit report opined on by BKD, LLP, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of Indianapolis Public Transportation Corporation (IndyGo) as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report on page 50. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Management's response and planned corrective action has been incorporated into the report after page 53.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

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

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

Paul D. Joyce, CPA  
State Examiner

**Indianapolis Public Transportation Corporation**  
A Component Unit of the Consolidated City of Indianapolis-Marion County  
Independent Auditor's Report and Financial Statements  
December 31, 2017

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**December 31, 2017**

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## Independent Auditor's Report

Board of Directors  
Indianapolis Public Transportation Corporation  
Indianapolis, Indiana

### Report on the Financial Statements

We have audited the accompanying financial statements of the Indianapolis Public Transportation Corporation (IPTC), a component unit of the consolidated City of Indianapolis-Marion County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise IPTC's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express 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 from material misstatement.

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IPTC, as of December 31, 2017, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information and other postemployment benefit 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 sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise IPTC's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated August 29, 2018, on our consideration of IPTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of IPTC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IPTC's internal control over financial reporting and compliance.

*BKD, LLP*

Indianapolis, Indiana  
August 29, 2018

# **Indianapolis Public Transportation Corporation**

## **A Component Unit of the Consolidated City of Indianapolis-Marion County**

### **Management's Discussion and Analysis**

#### ***Introduction***

This section of the financial statements presents a discussion and analysis of the Indianapolis Public Transportation Corporation's (IPTC's) financial performance for the year ended December 31, 2017. Please read this section in conjunction with 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 and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at December 31, 2017 by \$125.7 million (net position). Of this amount, \$8.5 million (unrestricted net position) may be used to meet IPTC's ongoing obligations arising from providing transportation service to the community at December 31, 2017.
- Fare revenues for 2017 decreased 4% from 2016.
- FTA capital contributions for 2017 increased 2% from 2016.
- FTA local operating and planning grants and preventative maintenance funding for 2017 increased 13% from 2016.
- Operating expenses before depreciation for 2017 increased 6% from 2016.
- Net position increased by approximately \$3.9 million or 3% in 2017.

#### ***Overview of the Financial Statements***

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

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

The financial statements provide both short and long-term information about 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 Position

IPTC's total assets and deferred outflows of resources at December 31, 2017 were approximately \$137.2 million. These changes represent an increase of approximately 2% in 2017. Total liabilities and deferred inflows of resources approximated \$11.6 million at December 31, 2017. These changes represent a decrease of 7% in 2017.

Approximately \$109.6 million, or 87%, of the net position reflects investments in capital assets, less related debt at December 31, 2017. Approximately \$6.6 million, or 5%, of the net position is restricted for future acquisition of capital assets at December 31, 2017. Approximately \$8.5 million, or 7%, may be used to meet IPTC's ongoing obligations arising from providing transportation services to the community at December 31, 2017.

**Table 1 - Net Position**

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets	\$ 17,817,828	\$ 22,296,037
Capital assets (net)	110,868,311	101,456,879
Other noncurrent assets	8,444,301	9,924,565
Total assets	137,130,440	133,677,481
<b>Deferred Outflows of Resources</b>	76,861	414,885
Total assets and deferred outflows of resources	<u>\$ 137,207,301</u>	<u>\$ 134,092,366</u>
<b>Liabilities</b>		
Current liabilities	\$ 10,634,076	\$ 11,275,560
Noncurrent liabilities	333,157	626,241
Total liabilities	10,967,233	11,901,801
<b>Deferred Inflows of Resources</b>	586,866	484,601
Total liabilities and deferred inflows of resources	<u>11,554,099</u>	<u>12,386,402</u>
<b>Net Position</b>		
Net investment in capital assets	109,603,972	98,023,684
Restricted for capital assets acquisitions	6,582,761	9,474,994
Restricted for net pension asset	1,006,113	55,190
Unrestricted	8,460,356	14,152,096
Total net position	<u>125,653,202</u>	<u>121,705,964</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 137,207,301</u>	<u>\$ 134,092,366</u>

## Changes in Net Position

The change in net position for 2017 represents an increase of approximately \$3.9 million, or 3%. Total revenues for 2017 decreased approximately \$2.0 million, or 2%. The decrease is mainly attributed to a \$2.9 million decrease in other net revenues resulting primarily from a one-time gain recognized during 2016 for an environmental remediation cost recovery. Overall operating expenses, excluding depreciation increased \$4.1 million, or 6%, in 2017, which was primarily attributed to an increase in bus service and legal claims during 2017.

**Table 2 - Changes in Net Position**

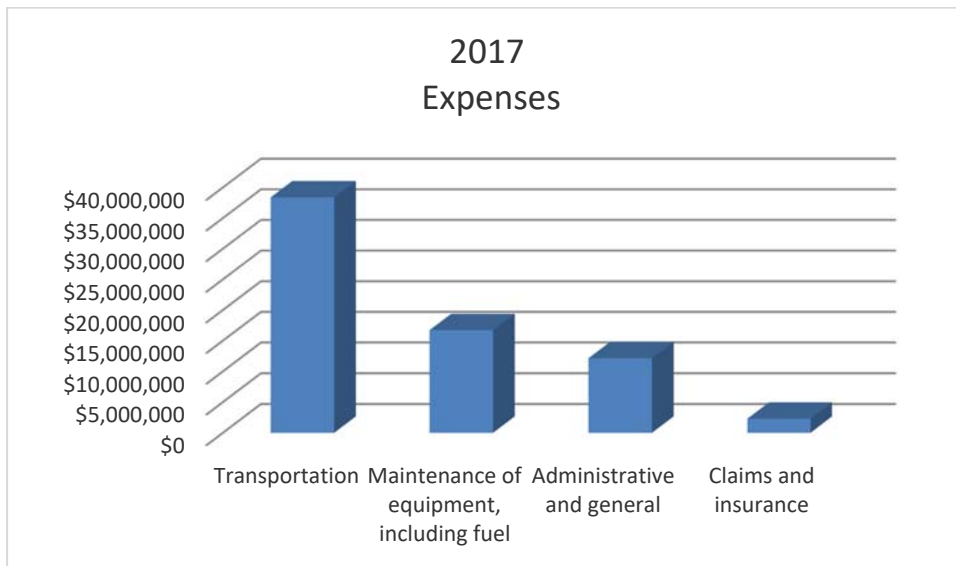
	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>		
Passenger fares	\$ 9,990,230	\$ 10,387,232
Advertising	638,326	717,970
Total operating revenues	<u>10,628,556</u>	<u>11,105,202</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property and excise tax	39,254,016	39,000,284
Municipalities	11,002,081	11,021,036
Federal assistance	13,331,008	11,792,142
Contributions - capital grants	9,903,586	9,721,628
Loss on disposal of capital assets	(515,904)	-
Other net revenues	145,659	3,068,411
Total nonoperating revenues (expenses)	<u>73,120,446</u>	<u>74,603,501</u>
Total revenues	<u>83,749,002</u>	<u>85,708,703</u>
<b>Operating Expenses</b>		
Transportation	38,377,545	35,205,033
Maintenance of equipment, including fuel	16,708,390	16,837,683
Administrative and general	12,123,381	11,842,475
Claims and insurance	2,288,866	1,547,474
Depreciation	10,303,582	9,105,197
Total operating expenses	<u>79,801,764</u>	<u>74,537,862</u>
<b>Change in Net Position</b>	3,947,238	11,170,841
<b>Net Position, Beginning of Year</b>	<u>121,705,964</u>	<u>110,535,123</u>
<b>Net Position, End of Year</b>	<u>\$ 125,653,202</u>	<u>\$ 121,705,964</u>

**Revenues:** For 2017, total operating revenues decreased approximately \$477,000 or 4%. For 2017, nonoperating revenues excluding capital grant contributions and other revenue (expenses), decreased by approximately \$1.7 million, or 3%.



The revenues and percentages presented above exclude “Contributions - capital grants” of \$9,903,586 and “Other net revenues” of \$145,659 for 2017.

**Expenses:** During 2017, total operating expenses, excluding depreciation, are approximately \$69.5 million. This is an increase of \$4.1, or 6% from 2016. This increase is primarily attributed to an increase in transportation services and legal claims in 2017.



The expenses and percentages presented above exclude “depreciation” expense of \$10,303,582 for 2017.

## Capital Asset and Debt Administration

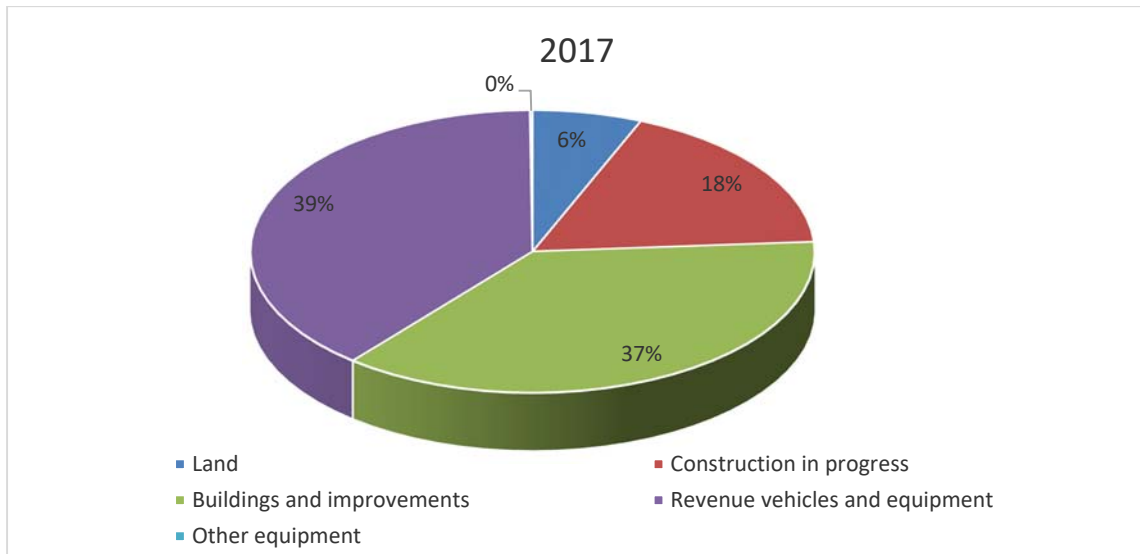
### Capital Assets

As of December 31, 2017, IPTC had invested approximately \$110.9 million in capital assets, net of accumulated depreciation. Compared to the prior year, capital assets increased by approximately \$9.4 million for the year ended December 31, 2017. Depreciable capital acquisitions for 2017 were approximately \$10.7 million with a net loss on retirement of capital assets totaling \$515,904 recognized during 2017. Net increase in construction in progress was \$9.6 for 2017, which is primarily the result of IPTC's significant expansion of services in process at December 31, 2017. 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 2017 included 16 low floor 40 ft. buses totaling approximately \$7.2 million and continued development of the Red Line and Purple Line totaling approximately \$7.8 million.

Percentage allocation invested in net capital assets:



## **Debt Disclosures**

As of December 31, 2017, IPTC had approximately \$621,977 of notes payable. During 2017, bonds and notes payable were repaid pursuant to the maturity schedule of each issue and during 2017, IPTC repaid all bonds outstanding. As of December 31, 2017, IPTC had no financial restrictive covenants associated with its outstanding debt. Please refer to Note 6 of the financial statements included in the 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.

In late 2017, the IPTC's Board of Directors awarded several contracts related to the Marion County Transit Plan (Plan) to significantly expand services to the community. In conjunction with the Plan, IPTC anticipates issuing debt in an amount not to exceed \$25 million during 2018 to fund certain portions of the Plan.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Statement of Net Position**  
**December 31, 2017**

**Assets and Deferred Outflows of Resources**

**Current Assets**

Cash and cash equivalents	
Unrestricted - working capital	\$ 9,664,065
Restricted - debt service	457,635
Unrestricted - liability reserve	822,487
Total cash and cash equivalents	10,944,187
Receivables	
Federal grants	3,295,208
Operations receivables, net	283,260
Total receivables	3,578,468
Other current assets	
Materials and supplies inventory	3,251,703
Deposits and prepaid expenses	43,470
Total other current assets	3,295,173
Total current assets	17,817,828

**Noncurrent Assets**

Unrestricted investments	425,938
Restricted investments - capital asset acquisitions	6,582,761
Net pension asset	1,006,113
Net other postemployment benefit asset	429,489
Capital assets	
Nondepreciable assets	
Land	6,975,654
Construction in progress	17,510,647
Total nondepreciable assets	24,486,301
Depreciable assets	
Buildings and improvements	89,025,732
Revenue vehicles and equipment	91,316,883
Other equipment	15,117,245
Total depreciable assets	195,459,860
Total capital assets	219,946,161
Accumulated depreciation	(109,077,850)
Capital assets, net of depreciation	110,868,311
Total noncurrent assets	119,312,612
Total assets	137,130,440

**Deferred Outflows of Resources**

Deferred outflows - pensions	76,861
Total assets and deferred outflows of resources	\$ 137,207,301

## Liabilities, Deferred Inflows of Resources and Net Position

### Current Liabilities

Accounts and contract services payable	\$ 7,026,775
Accrued payroll and benefits	1,160,905
Unearned fare revenue	367,059
Notes payable	621,977
Risk management - unpaid claim estimates	1,202,941
Other unearned revenue	254,419
Total current liabilities	<u>10,634,076</u>

### Noncurrent Liabilities

Risk management - unpaid claim estimate	333,157
Total liabilities	<u>10,967,233</u>

### Deferred Inflows of Resources

Deferred inflows - pensions	<u>586,866</u>
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### Net Position

Net investment in capital assets	109,603,972
Restricted for capital assets acquisitions	6,582,761
Restricted for net pension asset	1,006,113
Unrestricted	8,460,356
Total net position	<u>125,653,202</u>

Total liabilities and net position

\$ 137,207,301

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2017**

<b>Operating Revenues</b>	
Passenger fares	\$ 9,990,230
Advertising	638,326
Total operating revenues	<u>10,628,556</u>
<b>Operating Expenses</b>	
Transportation	38,377,545
Maintenance of equipment, including fuel	16,708,390
Administrative and general	12,123,381
Claims and insurance	2,288,866
Depreciation	10,303,582
Total operating expenses	<u>79,801,764</u>
<b>Operating Loss</b>	<u>(69,173,208)</u>
<b>Nonoperating Revenues (Expenses)</b>	
Operating assistance	
Property and excise tax	39,254,016
Municipalities	11,002,081
Federal and local operating and planning grants, and preventative maintenance funding	13,331,008
Loss on disposal of capital assets	(515,904)
Other net revenues	145,659
Total nonoperating revenue	<u>63,216,860</u>
<b>Change in Net Position Before Capital Contributions</b>	(5,956,348)
Contributions - capital grants	<u>9,903,586</u>
<b>Change in Net Position</b>	3,947,238
<b>Net Position, Beginning of Year</b>	<u>121,705,964</u>
<b>Net Position, End of Year</b>	<u>\$ 125,653,202</u>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Statement of Cash Flows**  
**Year Ended December 31, 2017**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 10,561,974
Payments for transportation	(37,810,942)
Payments for maintenance of equipment, including fuel	(16,548,147)
Payments for administrative and general	(12,158,489)
Claims and insurance paid to external parties	(1,632,607)
Net cash used in operating activities	<u>(57,588,211)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Property and excise tax distributions	39,254,016
Assistance from municipalities	10,923,381
Federal operating assistance	13,419,971
Borrowings on line of credit	6,995,266
Repayments on line of credit	(6,995,266)
Net cash provided by noncapital financing activities	<u>63,597,368</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Capital grant receipts	9,622,568
Purchases of capital assets	(21,182,397)
Proceeds from sale of capital assets	95,700
Principal paid on bonds payable	(1,680,000)
Interest paid on bonds payable	(29,081)
Net cash used in capital and related financing activities	<u>(13,173,210)</u>
<b>Cash Flows From Investing Activities</b>	
Purchases of investments	(4,246,566)
Proceeds from sale of investments	4,302,979
Interest received on cash and cash equivalent	17,608
Net cash provided by investing activities	<u>74,021</u>
<b>Net Change in Cash and Cash Equivalents</b>	(7,090,032)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>18,034,219</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 10,944,187</u></u>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Statement of Cash Flows (Continued)**  
**Year Ended December 31, 2017**

<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>	
Operating loss	\$ (69,173,208)
Adjustments to reconcile loss to net cash and cash equivalents	
Depreciation expense	10,303,582
Changes in assets and liabilities	
Other receivables	(91,591)
Materials and supplies inventory	160,243
Deposits and prepaid expense	(18,553)
Other postemployment benefit asset	(35,108)
Deferred outflows of resources - pensions	338,024
Deferred inflows of resources - pensions	102,265
Net pension asset	(950,923)
Accounts and contract services payable	1,017,095
Accrued payroll and benefits	78,695
Unearned fare revenue	25,009
Risk management	<u>656,259</u>
Net cash used in operating activities	<u><u>\$ (57,588,211)</u></u>
 <b>Noncash Investing and Financing Activities</b>	
Capital assets in accounts payable	\$ 1,264,339
Payment of note payable via transfer of other assets	111,355
Loss on disposal of capital assets	515,904

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Reporting Entity***

Indianapolis Public Transportation Corporation (IPTC) operates in the public transportation industry with the purpose of acquiring, providing and maintaining an urban mass transportation system for the metropolitan Indianapolis area. IPTC d/b/a IndyGo was formed on August 7, 1973 by City-Council General Ordinance No. 36 as a municipal corporation, which has no stockholder, under the provisions of IC 36-9-4. Management of the Consolidated City of Indianapolis-Marion County has determined that IPTC is a component unit of the Consolidated City of Indianapolis-Marion County, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 and amended by Statement No. 61 and IPTC 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 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 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 issuance of debt.

***Basis of Accounting and Presentation***

IPTC is accounted for as a single-purpose, business-type entity since its operations are financed and operated in a manner similar to a private business. IPTC's financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and government appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues are primarily the result of passenger fares, as well as fees collected from advertisements on IPTC property. Operating expenses for IPTC include the costs of operating the transit system, administrative expenses and depreciation on capital assets. Government-mandated or voluntary nonexchange transactions that are not program specific (such as government appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. IPTC first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2017**

***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 the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

IPTC considers all liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents. At December 31, 2017, cash equivalents consisted of demand and money market deposit accounts.

***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<sup>st</sup>. 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<sup>th</sup> and November 10<sup>th</sup> of the year subsequent to assessment. The Marion County Treasurer remits collections to IPTC and other governmental units within the county.

***Risk Management***

IPTC is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than personal injury claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

IPTC is self-insured for a portion of its exposure to risk of loss from property damage claims (\$50,000 deductible) and personal injury matters. Annual estimated provisions are accrued for the self-insured portion of claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2017**

***Investments***

In accordance with Indiana Code, it is the policy of 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. obligations and issues of federal agencies, secured repurchase agreements fully collateralized by the U.S. Government or U.S. Government agency securities, municipal securities of Indiana issuers that have not defaulted during the previous 20 years, and open-ended money market mutual funds. 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. Investments are stated at fair value.

***Receivables***

IPTC reports receivables for amounts due and unpaid as of year-end and receivable balances are shown net of allowance, if any, for uncollectible balances. IPTC provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Management has recorded an allowance of \$193,000 for potentially uncollectible operating receivable balances at December 31, 2017. Management has not made a provision for an allowance for uncollectible property tax receivables or federal grants receivable.

***Restricted and Designated Assets***

Certain cash, cash equivalents and investment balances are restricted or designated as follows:

- Debt Service: Funds deposited in these accounts are set aside to be used for the purpose of payment on outstanding debt.
- Liability Reserve (designated only): Funds 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.
- Capital Asset Acquisition: 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.

***Supplies***

Supply inventories are stated at cost, determined using the first-in, first-out method. Management reviews supply inventories regularly for obsolete inventory which is written off when determined to no longer be of value to IPTC.

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***Capital Assets***

Major items of capital assets acquired with federal, state and local funds are capitalized at cost. IPTC adheres to the Federal Transit Administration (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) homogenous and not individually identifiable; (b) may or may not have a unit 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. 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:

	<b>Years</b>
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

***Deferred Outflows and Inflows of Resources***

IPTC reports a consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its statements of net position.

IPTC reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its statements of net position.

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***Compensated Absences***

IPTC policies permit essentially all employees to accumulate benefits for vacation, holidays, illness and certain other qualifying absences that may be realized as paid time off or, in limited circumstances, as a cash payment. The number of days compensated for the various categories of absence is based generally on length of service. Expense and the related liability are recognized as vacation benefits are earned and vested whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensation for holiday and other qualifying absences is not accrued in the accompanying financial statements because rights to 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 experience, for employees with at least one year of service regardless of age. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

***Defined-Benefit Pension Plan***

IPTC has a single-employer defined-benefit pension plan known as the Indianapolis Public Transportation Corporation Pension Plan (Plan). For purposes of measuring the net pension (asset) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***Net Position***

Net position of IPTC is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position consists of external constraints placed on net position imposed by creditors, grantors, donors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position. If both restricted and unrestricted resources are to be used for the same purpose, restricted resources will be applied first.

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***Revenue and Expense Recognition***

Passenger fare revenues 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.

IPTC receives a significant portion of their revenues from 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 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 by IPTC when earned.

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

***Future Adoption of New Accounting Standards***

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; Statement No. 83, *Certain Asset Retirement Obligations*; Statement No. 84, *Fiduciary Activities*; Statement No. 85, *Omnibus 2017*, and Statement No. 87, *Leases*. IPTC intends to adopt these GASB Statements, as applicable, on their respective effective dates.

**Note 2: Deposits and Investments**

***Summary of Carrying Values***

The carrying values of deposits and investments included in the statement of net position are classified as follows:

	<b>2017</b>
Current Assets	
Cash and cash equivalents	
Unrestricted - working capital	\$ 9,664,065
Restricted - debt service	457,635
Unrestricted - liability reserve	822,487
Noncurrent Assets	
Unrestricted investments	425,938
Restricted investments - capital asset acquisitions	6,582,761
	\$ 17,952,886
Cash and Cash Equivalents	\$ 10,944,187
Investments	7,008,699
	\$ 17,952,886

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The carrying amount of deposits and investments, by type of holding are:

Deposits	
Cash deposits	\$ 10,944,187
Investments	
Government-backed mortgage notes	<u>7,008,699</u>
Total deposits and investments	<u><u>\$ 17,952,886</u></u>

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. IPTC's deposit policy for custodial credit risk requires compliance with the provisions of Indiana statutes.

IPTC's cash deposits are insured up to \$250,000 at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits in excess of the \$250,000 FDIC limits are partially or fully collateralized by the depository institution and insured by the Indiana Public Deposits Insurance Fund (IPDIF) via the pledged collateral from the institutions securing deposits of public funds. IPDIF is a multiple financial institution collateral pool as provided under Indiana Code, Section 5-13-12-1.

**Investment Policy**

Indiana statutes generally authorize IPTC to invest in U.S. obligations and issues of federal agencies, secured repurchase agreements fully collateralized by the U.S. Government or U.S. Government agency securities, municipal securities of Indiana issuers that have not defaulted during the previous 20 years, certificates of deposit and open-ended money market mutual funds. It is the policy of IPTC to deposit public funds into the depositories approved by the Marion 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.

At December 31, 2017, IPTC had the following investments and maturities:

	Fair Value	Maturities (in Years)	
		Less Than 1	1 to 5
Government-backed mortgage notes	<u>\$ 7,008,699</u>	<u>\$ 4,782,604</u>	<u>\$ 2,226,095</u>

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**Interest Rate Risk** - As a means of limiting its exposure to fair value losses arising from rising interest rates, IPTC is limited to investing in municipal securities of Indiana issuers that have not defaulted during the previous 20 years and other securities with a stated maturity of not more than two years after the date of purchase or entry into a repurchase agreement, as defined by Indiana Code.

**Credit Risk** - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. IPTC complies with the provisions of Indiana statutes. At December 31, 2017, IPTC's investments were rated by Moody's Investor Services or Standard and Poor's as follows:

	<b>Fair Value</b>	<b>AAAm</b>	<b>Not Rated</b>
Government-backed mortgage notes	\$ 7,008,699	\$ 7,008,699	\$ -

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, IPTC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2017, IPTC's investments in government-backed mortgage notes were exposed to custodial credit risk. These investments were uninsured and the collateral was held by the pledging financial institution's trust department or agent but not in IPTC's name. 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.

**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 that may be invested in any one issuer. The following table shows investment in issuers and the representative percentage of total investments at December 31, 2017.

	<b>Fair Value</b>	<b>% Rounded</b>
United States Treasury Notes	\$ 7,008,699	100.0%

**Foreign Currency Risk** - This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. All IPTC deposits and investments are denominated in United States currency and is prohibited from investing in foreign investments.

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**Note 3: Capital Assets**

Capital assets activity for the year ended December 31 was:

	January 1, 2017	Additions/ Transfers	Disposals/ Transfers	December 31, 2017
<b>Capital Assets Cost</b>				
Nondepreciable capital assets				
Land	\$ 6,975,654	\$ -	\$ -	\$ 6,975,654
Construction in progress*	7,893,257	11,949,830	(2,332,440)	17,510,647
Total nondepreciable capital assets	<u>14,868,911</u>	<u>11,949,830</u>	<u>(2,332,440)</u>	<u>24,486,301</u>
Depreciable capital assets				
Buildings and improvements	88,808,517	217,215	-	89,025,732
Revenue vehicles and equipment	92,522,413	8,376,788	(9,582,318)	91,316,883
Other equipment	13,002,020	2,115,225	-	15,117,245
Total depreciable capital assets	<u>194,332,950</u>	<u>10,709,228</u>	<u>(9,582,318)</u>	<u>195,459,860</u>
Less: accumulated depreciation for				
Buildings and improvements	(44,465,627)	(3,331,265)	-	(47,796,892)
Revenue vehicles and equipment	(50,607,282)	(6,420,026)	8,970,714	(48,056,594)
Other equipment	(12,672,073)	(552,291)	-	(13,224,364)
Total accumulated depreciation	<u>(107,744,982)</u>	<u>(10,303,582)</u>	<u>8,970,714</u>	<u>(109,077,850)</u>
Total depreciable capital assets, net	<u>86,587,968</u>	<u>405,646</u>	<u>(611,604)</u>	<u>86,382,010</u>
Total capital assets, net	<u>\$ 101,456,879</u>	<u>\$ 12,355,476</u>	<u>\$ (2,944,044)</u>	<u>\$ 110,868,311</u>

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

**Note 4: Tax Abatements**

The City of Indianapolis (City) promotes a series of real and personal property tax abatement programs available under Indiana law, including:

***Real Property Tax Abatement (I.C. 6-1.1-12.1)***

Real property tax abatements are achieved through the phase-in of real property tax obligations from the improvements being made. The phase-in can span a period of one to ten years and is based on a declining percentage of the increase in assessed value of such improvements.

Tax abatement is granted based on qualifying new investment, retained and committed jobs, wages and the economic impact of the project. The City's Metropolitan Development Commission (MDC) is responsible for approving the abatement and determining the time period for the abatement. In some cases, City-County Council approval is also required for the abatement. Required approval(s) must occur before construction permits are obtained.

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***Personal Property Tax Abatement (I.C. 6-1.1-12.1)***

Similarly, personal property tax abatements for manufacturing, research and development, information technology and logistics/distribution equipment are accomplished through the phase-in of personal property tax obligations over a one to ten year period, based on a declining percentage of the assessed value of the newly installed equipment.

Tax abatement is granted based on qualifying new investment, retained and committed jobs, wages and the economic impact of the project. MDC and, in certain circumstances, the City-County Council approval is required and must occur prior to the equipment being operational and the MDC determines the time period for the abatement.

***Tax Exemption for Enterprise Information Technology Equipment (I.C. 6-1.1-10.44)***

The City may grant up to a ten-year, 100% personal property tax exemption to a business engaged in computing, networking or data storage for new investments in qualified enterprise information technology equipment.

The tax exemption requires a minimum investment of \$10 million in qualifying investment by an eligible business located in a High Technology District Area, as designated by the City-County Council. The average wage of employees must be at least one hundred twenty-five percent (125%) of the county average wage. Examples of non-eligible activities are call centers, back office operations, customer service operations and credit/claims processing operations. City-County Council approval is required to grant the exemption.

***Vacant Building Abatement (I.C. 6-1.1-12.1)***

Up to a two-year real property tax abatement is available to a company, according to local qualifications, based on occupying a building that has been vacant for more than a year.

The building must be used for commercial or industrial purposes and be located in a designated Economic Revitalization Area, as designated by the MDC. Prior approval of the MDC must occur before occupying the facility and the MDC determines the time period for the abatement.

All of these programs are designed to spur job creation and retention, grow the income and property tax base, support the redevelopment of areas experiencing a cessation of growth, attract and retain businesses in targeted industries, and assist distressed businesses, among other objectives. Minimum eligibility criteria for such abatements vary by program, as noted above, but generally require that an investment in real or personal property be projected to increase assessed value, create or retain jobs and/or promote economic revitalization.

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In return for such abatements, the City generally commits to permit, zoning and job training assistance. Included in each abatement agreement are provisions specifying certain damages, among which may include a clawback of some or all of the taxes previously abated. If a company ceases operations or announces the cessation of operations at the facility for which the abatement was granted, termination of the abatement agreement is warranted and 100% clawback is required. Other clawbacks are calculated based on the highest level of non-compliance among the measured categories for that project.

***Impact of Abatements on Revenues***

Indiana property tax laws complicate the calculation of the exact impact of property tax abatements on the tax revenues of a given unit of local government. Constraints on the growth of the annual tax levy and constitutional limitations on taxes (also known as property tax caps) are the chief complicating factors. The increase in the annual tax levy is limited to the growth in the six-year moving average of nonfarm personal income growth, which is known as the Assessed Value Growth Quotient (AVGQ). Statutory property tax caps for homesteads, agricultural and other residential, and commercial are equal to 1%, 2% and 3%, respectively, of associated assessed valuations.

The tax rate, which is established for each taxing unit by the Department of Local Government Finance, is based on the tax levy requested by the taxing unit (as limited by the AVGQ) divided by the net assessed value of the property in a physical taxing district. The theory behind the AVGQ is that the costs of government should not be increasing at a greater rate than taxpayer incomes.

Tax abatements are granted on the assessed value of the property abated. The taxpayer's taxes are then calculated based on this reduced assessment, thus resulting in a lower tax liability. But because a given district's tax rate is calculated based on the total net assessed value in the district (net of abatements and other adjustments), the certified levy of each unit in the district is the same as if the abatements had not been granted.

Additionally, to the extent that parcels have reached the constitutional limit of tax liability as a percentage of gross assessed value, the property tax rate caps (circuit breaker credits) reduce the property tax collections of the affected taxing units. The degree to which property tax abatements exacerbate circuit breaker losses differs by parcel and is dependent on the proportion of abated assessed value to total gross assessed value, as well as prevailing property tax rates.

The estimated gross amount, on an accrual basis, by which IPTC's property tax revenues were reduced as a result of the aforementioned City abatement programs totaled \$543,000. However, the actual extent of lost revenues is something less than this amount and cannot be easily determined due to the application of circuit breaker credits.

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**Note 5: Risk Management**

IPTC is exposed to various risks of loss related to theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which IPTC carries third-party insurance and retains certain risks. IPTC is self-insured for workers' compensation without limitation. Detail of the estimated claims liability is provided below, which is made up of claims reported before the issuance of the financial statements for which 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. It is reasonably possible that IPTC's estimate will change by a material amount in the near term. There were no significant reductions in insurance coverage during 2017 and there were no settlements that exceeded insurance coverage during the past three years for those risks that IPTC purchased insurance. Activity for the year ended December 31, 2017 was as follows for those risks for which IPTC bears risk:

	<u>2017</u>	<u>2016</u>
Unpaid claims, beginning of year	\$ 879,839	\$ 445,845
Incurred claims and changes in claim estimates	2,388,675	1,888,682
Claim payments	<u>(1,732,416)</u>	<u>(1,454,688)</u>
Unpaid claims, end of year	<u>\$ 1,536,098</u>	<u>\$ 879,839</u>
Current portion	\$ 1,202,941	\$ 253,598
Noncurrent portion	<u>333,157</u>	<u>626,241</u>
Unpaid claims, end of year	<u>\$ 1,536,098</u>	<u>\$ 879,839</u>

During 1986, IPTC's Board of Directors approved the establishment of a non-reverting fund (Liability Reserve Account) 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.

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**Note 6: Long-Term Obligations**

The following is a summary of long-term obligation transactions for IPTC for the year ended December 31:

	January 1, 2017	Additions	Reductions	December 31, 2017	Current	Noncurrent
<b>Long-Term Debt</b>						
Series 2012A bonds payable	\$ 1,680,000	\$ -	\$ (1,680,000)	\$ -	\$ -	\$ -
City of Indianapolis notes payable	719,124	14,208	(111,355)	621,977	621,977	-
Total bonds and notes payable	<u>2,399,124</u>	<u>14,208</u>	<u>(1,791,355)</u>	<u>621,977</u>	<u>621,977</u>	<u>-</u>
<b>Other Long-Term Liabilities</b>						
Risk management payable	879,839	2,388,675	(1,732,416)	1,536,098	1,202,941	333,157
Net pension liability (asset)	(55,190)	-	(950,923)	(1,006,113)	-	(1,006,113)
Total other long-term liabilities	<u>824,649</u>	<u>2,388,675</u>	<u>(2,683,339)</u>	<u>529,985</u>	<u>1,202,941</u>	<u>(672,956)</u>
Total long-term obligations	<u>\$ 3,223,773</u>	<u>\$ 2,402,883</u>	<u>\$ (4,474,694)</u>	<u>\$ 1,151,962</u>	<u>\$ 1,824,918</u>	<u>\$ (672,956)</u>

**Series 2012A Bonds Payable**

The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2012A, dated February 15, 2012, were issued in the aggregate principal amount of \$3,100,000. The Series 2012A bond proceeds were used to redeem Series 2002C Bonds and they bear interest at 2.05%, payable on January 10 and July 10 annually, and have serial maturities through 2017. These bonds were paid in full during January 2017.

**City of Indianapolis Notes Payable**

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 to passengers affected by planned route changes, and to review existing routes to plan for needed service change. Through various extensions and amendments to the original loan agreement, the maturity date of the loan was extended to December 31, 2019. During 2017, IPTC provided \$111,355 in the form of passenger bus tickets, parking lot permits and investment in capital projects for the benefit of the City of Indianapolis, which reduced the outstanding loan balance.

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***Line of Credit***

IPTC has a \$15 million line of credit agreement with a financial institution to fund future operating costs. The line matures on December 31, 2019 and interest is payable upon maturity at a rate of the 30-day LIBOR rate plus 0.75%. IPTC borrowed and repaid \$6,995,266 on the line during 2017. No balance existed as of December 31, 2017.

**Note 7: Benefit Plans - Defined-Contribution and Deferred Compensation**

***Defined-Contribution Plan***

IPTC maintains a defined-contribution 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 to participate in the plan.

- (a) Nonunion Employees. Are eligible to participate in the plan upon the first day of the month following 30 days of employment or at any time during their employment.
- (b) Eligible Union Employees. A Union Employee will become a participant upon employment pursuant to the collective bargaining agreement with the Union, which is the first of the month following six months of employment.

The defined-contribution plan is administered by the Pension Fund Committee (Committee), a joint labor-management body and is subject to collective bargaining. It is comprised of four members, two labor and two management, and has historically been chaired by the ranking Labor member. The current plan requirements for union employees is governed by an arbitration award effective until June 30, 2018. Prior to July 1, 2017, the award required union employees to contribute 3.5% of their compensation in order to receive the 3.0% employer match, with 0.50% directed to fund the defined-benefit plan until such time the fund ratio met the 110% requirement to return the 0.50% back to the employee. Currently, union and nonunion employees contribute 3.5% of their compensation to the 401(a) in order to receive the 3.5% employer match. Employer contributions to the defined-contribution plan during 2017 were \$813,178.

***Deferred Compensation Plan***

IPTC maintains an IRS Code Section 457 plan for the benefit of substantially all of its employees. 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 and plan assets are held in a trust separate from IPTC's assets.

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**Note 8: Benefit Plan - 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 (Plan). The Plan is part of the collective bargaining agreement between IPTC and the Amalgamated Transit Union (ATU), Local 1070. All full-time IPTC employees who agree to make employee contributions in accordance with the Plan are covered by the Plan after working 60 days of continuous employment. After December 31, 1997, no new employees entered the Plan. Effective December 31, 1997, all benefits were frozen by plan amendment, and effective December 31, 1997, the Plan was amended to remove the disability benefit provisions. Current requirements for administering both the Defined Benefit Pension Plan and the Defined Contribution Plan for union employees are governed by an arbitration award issued by Samuel Stone that is effective until June 30, 2018. The Plan issues a separate audit report that includes financial statements and required supplementary information for the Plan, which can be obtained by writing to Indianapolis Public Transportation Corporation, 1501 West Washington Street, Indianapolis Indiana 46222.

***Benefits Provided***

The Plan provides retirement and death benefits to plan members and their beneficiaries. The retirement benefit is payable monthly during the life of the retired employee. If, at death, the retired employee has not received total benefits at least equal to his/her contributions to the Plan (plus interest accumulated at 2% per year), his/her beneficiary or estate will be paid a sum equal to his/her total contributions plus interest, less the aggregate of the benefits he/she has received. Death benefits or termination of employment prior to retirement, result in the return of all employee contributions plus interest at 2% to be made. 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 with 20 years of continuous employment as of January 1, 2006 who have not attained age 65.

The employees covered by the Plan at December 31, 2017, are:

Inactive employees or beneficiaries currently receiving benefits	128
Inactive employees entitled to but not yet receiving benefits	4
Active employees	33
	165
	165

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**Contributions**

The Pension Fund Committee has the authority to establish and amend the contribution requirements of the IPTC and active employees only through negotiation or arbitration. Effective January 1, 1998, all future employer and employees' contributions to the Plan were eliminated. Previously, the contribution rates were 3.5% of compensation for employees and 3.5% of compensation for IPTC. As of January 10, 2006, all vested active employees as of January 1, 2006 who remain in the Plan will contribute 4.5% of their pay. IPTC will contribute 3.5% of their pay. Additionally, IPTC will contribute 0.5% of pay for all employees who were nonvested plan participants as of January 1, 2006. Employer contributions for 2017 were \$124,276.

**Net Pension Liability (Asset)**

IPTC's net pension liability (asset) was measured as of December 31, 2017, for the year ended December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by actuarial valuation as of December 31, 2017 and 2016, which were unchanged from December 31, 2016.

For the total pension liability (asset) at December 31, 2017, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.3%
Salary increases	3%, average, including inflation
Ad hoc cost of living adjustments	none
Investment rate of return	6.5%, net of pension plan investment expense, including inflation
Retirement age	65 years
Turnover	Crocker-Sarson T4 table

Mortality rates were based on the RP-2014 Blue Collar Mortality for Employees, Healthy Annuitants and Disabled Annuitants set forward one year with generational projection per Scale MP-2017.

The actuarial assumptions used in the December 31, 2017 valuations were not based on the results of an actuarial experience study.

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The building-block method which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	70%	4.86%
Non-US equity	10%	6.34%
Fixed income	10%	2.66%
Cash	10%	0.59%
Total	<u>100%</u>	

***Discount Rate***

The discount rate used to measure the total pension liability was 6.50%, for the year ended December 31, 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that IPTC contributions will be made at contractually determined contribution rates. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

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Changes in the total pension liability, plan fiduciary net position and the net pension liability (asset) for 2017 are:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
<b>Balances at January 1, 2017</b>	\$ 9,758,256	\$ 9,813,446	\$ (55,190)
<b>Changes for the year</b>			
Interest	605,983	-	605,983
Effect of economic/demographic gains or losses	(85,848)	-	(85,848)
Effect of assumptions, changes or inputs	(81,629)	-	(81,629)
Benefit payments, including refunds of employee contributions	(884,818)	(884,818)	-
Contributions - employer	-	124,276	(124,276)
Contributions - employee	-	88,269	(88,269)
Net investment income	-	1,214,040	(1,214,040)
Administrative expense	-	(37,156)	37,156
Net changes	<u>(446,312)</u>	<u>504,611</u>	<u>(950,923)</u>
<b>Balances at December 31, 2017</b>	<u>\$ 9,311,944</u>	<u>\$ 10,318,057</u>	<u>\$ (1,006,113)</u>

The net pension liability (asset) of IPTC has been calculated using a discount rate of 6.50% at December 31, 2017. The following presents the net pension liability (asset) using a discount rate of 1% higher and 1% lower than the current rate.

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
IPTC's net pension asset	\$ (312,625)	\$ (1,006,113)	\$ (1,615,584)

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***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position, or fair value of Plan assets, at December 31, 2017 is as follows:

Cash and cash equivalents	\$ 1,067,018
Receivable investment income	1,072,328
Fixed income investments	1,051,791
Domestic equities	<u>7,126,920</u>
	<u>\$ 10,318,057</u>

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended December 31, 2017, IPTC recognized reduction of expense of \$386,358. At December 31, 2017, IPTC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 258,672
Changes of assumptions	76,861	3,271
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>324,923</u>
	<u>\$ 76,861</u>	<u>\$ 586,866</u>

**Indianapolis Public Transportation Corporation**  
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Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2017, related to pensions will be recognized in pension expense (reduction in pension expense) as follows:

<b>Year Ending December 31:</b>	<b>Amount</b>
2018	\$ (160,234)
2019	(67,474)
2020	(162,526)
2021	(119,771)

***Payable to the Pension Plan***

At December 31, 2017, IPTC had no outstanding amount of contributions owed to the pension plan required for the year.

**Note 9: Postemployment Benefits Other Than Pensions**

***Plan Description***

IPTC maintains and provides postemployment medical and life insurance benefits (OPEB) to retirees, through a single-employer defined-benefit plan, which IPTC administers. 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 IPTC 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 18<sup>th</sup> 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 plan does not issue a stand-alone financial report.

***Funding Policy***

IPTC funds these benefits annually based on an actuarially determined amount and is subject to board approval. IPTC has recorded the cumulative difference between the annual required contributions (ARC) and amounts contributed to the plan as an asset on the statements of net position.

**Indianapolis Public Transportation Corporation**  
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**Annual OPEB Cost and Net OPEB Obligation**

IPTC's annual other postemployment benefit (OPEB) cost is calculated based on the 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 30 years. The following table shows the components of IPTC's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the net OPEB asset:

Annual required contribution	\$ 45,800
Interest on net OPEB obligation	(14,908)
Annual OPEB cost	<u>30,892</u>
Contributions made	<u>66,000</u>
Increase in net OPEB asset	(35,108)
Net OPEB asset, January 1, 2017	<u>(394,381)</u>
Net OPEB asset, December 31, 2017	<u><u>\$ (429,489)</u></u>

IPTC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB asset for 2017 and the two preceding years were as follows:

<b>Year Ended December 31</b>	<b>Annual OPEB Cost</b>	<b>Actual Contribution Made</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Asset</b>
2017	\$ 30,892	\$ 66,000	214%	\$ 429,489
2016	35,931	70,100	195%	394,381
2015	59,776	78,000	130%	360,212

**Indianapolis Public Transportation Corporation**  
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**Notes to Financial Statements**  
**December 31, 2017**

***Funded Status and Funding Progress***

As of December 31, 2017, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$1,164,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,164,000. The covered payroll (annual payroll of active employees covered by the plan) was not applicable, and the ratio of the UAAL to covered payroll was therefore 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 health care 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 value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

***Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as 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 plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2017 actuarial valuation, the projected unit credit actuarial cost method was used. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for retirees and is calculated based on the assumptions described in this report and census data. In determining the ARC, the unfunded AAL is amortized over 30 years from the valuation date on an open basis in level percent of payments.

The significant actuarial assumptions are summarized below:

Actuarial Valuation Date:	December 31, 2017
Discount Rate:	3.44% compounded annually
Compensation Increase Rate:	3.0% compounded annually
Mortality:	RP-2014 mortality rates set forward one year, with generational improvement using Scale MP-2017. Separate rates for males and females
Life Insurance Premiums:	\$4.07/month/\$1,000 of coverage

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 10: Disclosures About Fair Value of Assets and Liabilities**

IPTC categorizes its fair value measurements (investments) within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the investments. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

IPTC has the following recurring fair value measurements as of December 31, 2017:

- Government-backed mortgage notes totaling \$7,008,699 as of December 31, 2017 are valued using significant other observable inputs and are deemed to fall within Level 2 of the fair value hierarchy.

**Note 11: Other Nonoperating Revenue (Expense)**

Other nonoperating revenue and expense consisted of the following for 2017:

Other Revenues	
Investment income	\$ 17,608
Miscellaneous	157,132
Pass-through grants for subrecipients	<u>500,344</u>
	<u>675,084</u>
Other Expenses	
Interest payable from restricted debt service assets	29,081
Pass-through grants to subrecipients	<u>500,344</u>
	<u>529,425</u>
	<u>\$ 145,659</u>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 12: Contingencies**

***Litigation***

In the normal course of business, IPTC is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by IPTC's self-insurance program or by commercial insurance. IPTC evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Note 13: Commitments**

In late 2017, the IPTC Board of Directors awarded a number of contracts related to the Marion County Transit Plan - Red Line BRT Phase 1 project. The table below is a breakout of the contract activity and amount awarded (in millions).

**Red Line BRT Phase 1**

Construction	\$ 42.9
Construction management	3.1
Construction support	0.7
Fare collection	1.7
Transit signal priority	1.3
Vehicles	16.0
	<hr/>
	\$ 65.7
	<hr/> <hr/>

**Note 14: Subsequent Events**

In February 2017, the Indianapolis City-County Council voted to approve a new Marion County transit tax which will go into effect in October 2017. This additional tax is estimated to generate approximately \$54 million annually starting in 2018 and the funds will be used to implement the Marion County Transit Plan, which calls for adding buses and drivers, as well as building three rapid-transit bus lines.

IPTC plans to issue a Municipal Bond in an amount not to exceed \$25M in the third quarter of 2018. The proceeds from the bond issuance will be used to fund portions of the Purple Line BRT, Blue Line BRT, local bus and paratransit infrastructure and bus fleet replacement.

**Required Supplementary Information [Unaudited]**

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Schedule of Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability (Asset) and Related Ratios**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>			
Interest on total pension liability	\$ 605,983	\$ 602,323	\$ 623,493
Effect of economic/demographic gains or losses	(85,848)	(499,484)	(268,255)
Effect of assumptions, changes or inputs	(81,629)	(8,303)	333,067
Benefit payments, including refunds of employee contributions	(884,818)	(999,235)	(964,637)
Net change in total pension liability	<u>(446,312)</u>	<u>(904,699)</u>	<u>(276,332)</u>
Total pension liability - beginning	<u>9,758,256</u>	<u>10,662,955</u>	<u>10,939,287</u>
Total pension liability - ending (a)	<u>9,311,944</u>	<u>9,758,256</u>	<u>10,662,955</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - employer	124,276	159,746	164,076
Contributions - employee	88,269	88,923	96,872
Net investment income (loss)	1,214,040	823,838	(44,197)
Benefit payments, including refunds of employee contributions	(884,818)	(999,235)	(964,637)
Administrative expense	(37,156)	(29,504)	(21,917)
Net change in plan fiduciary net position	<u>504,611</u>	<u>43,768</u>	<u>(769,803)</u>
Plan fiduciary net position - beginning	<u>9,813,446</u>	<u>9,769,678</u>	<u>10,539,481</u>
Plan fiduciary net position - ending (b)	<u>10,318,057</u>	<u>9,813,446</u>	<u>9,769,678</u>
<b>IPTC's Net Pension Liability (Asset) - Ending (a) - (b)</b>	<u>\$ (1,006,113)</u>	<u>\$ (55,190)</u>	<u>\$ 893,277</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	110.80%	100.57%	91.62%
<b>Covered Payroll</b>	\$ 2,069,769	\$ 2,106,365	\$ 1,994,058
<b>IPTC's Net Pension Liability (Asset) as a Percentage of Covered Payroll</b>	-48.61%	-2.62%	44.80%

**Notes to Schedule:**

*Required supplementary information is not available for the preceding seven years. IPTC is presenting information for those years for which information is available until a full ten years of information is available.*

**Benefit changes.** No significant changes

**Changes of assumptions.** No significant changes

**Indianapolis Public Transportation Corporation**  
**A Component Unit of Consolidated City of Indianapolis-Marion County**  
**Schedule of Required Supplementary Information**  
**Schedule of IPTC Contributions**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 124,276	\$ 159,746	\$ 164,076
Contributions in relation to the contractually required contribution	<u>(124,276)</u>	<u>(159,746)</u>	<u>(164,076)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
IPTC's contributions as a percentage of contractually required contribution for pension	100%	100%	100%
IPTC's covered payroll	<u>\$ 2,069,769</u>	<u>\$ 2,106,365</u>	<u>\$ 1,994,058</u>
Contributions as a percentage of covered payroll	6.0%	7.6%	8.2%

**Notes to Schedule:**

*Required supplementary information is not available for the preceding seven years. IPTC is presenting information for those years for which information is available until a full ten years of information is available.*

Valuation date: January 1, 2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal

Amortization method: Level dollar

Remaining amortization period: N/A

Asset valuation method: Zero years smoothing period with no corridor

Inflation: 2.30%

Salary increases: 3.00%

Investment rate of return: 6.5%

Retirement age: 65

Mortality: RP-2014 Blue Collar Mortality for Employees, Healthy annuitants, and Disabled Annuitants set forward 1 year with generational projection per Scale MP-2017

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Schedule of Required Supplementary Information**  
**Schedule of Funding Progress Under GASB 45 for Other**  
**Postemployment Benefit Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Actuarial Accrued (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/2017	\$ -	\$ 1,164,000	\$ 1,164,000	0%	N/A	N/A
12/31/2016	\$ -	\$ 1,189,000	\$ 1,189,000	0%	N/A	N/A
12/31/2015	\$ -	\$ 1,299,000	\$ 1,299,000	0%	N/A	N/A

## **Supplementary Information**

**Indianapolis Public Transportation Corporation**  
**A Component Unit of Consolidated City of Indianapolis-Marion County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2017**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>Department of Transportation</b>				
<b>Federal Transit Administration</b>				
Direct programs				
Federal Transit Cluster				
Formula Grants	20.507	n/a	\$ -	\$ 21,450,376
Bus and Bus Facilities Formula Program	20.526	n/a	-	645,249
Total Federal Transit Cluster			<u>-</u>	<u>22,095,625</u>
Transit Services Program Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	n/a	400,482	1,149,356
Discretionary Grants	20.933	n/a	<u>-</u>	<u>390,094</u>
			<u>\$ 400,482</u>	<u>\$ 23,635,075</u>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of Consolidated City of Indianapolis-Marion County**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2017**

**Notes to Schedule**

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Indianapolis Public Transportation Corporation (IPTC) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented 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). Because the Schedule presents only a selected portion of the operations of IPTC, it is not intended to and does not present the financial position, changes in net position or cash flows of IPTC.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. 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. IPTC has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of the Financial Statements Performed in  
Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

Board of Directors  
Indianapolis Public Transportation Corporation  
Indianapolis, 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 Indianapolis Public Transportation Corporation (IPTC), a component unit of the Consolidated City of Indianapolis-Marion County, which comprise the statement of net position as of December 31, 2017, 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, and have issued our report thereon dated August 29, 2018.

***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of IPTC'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

### ***Compliance and Other Matters***

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

### ***IPTC's Response to the Finding***

IPTC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. IPTC's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

### ***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 IPTC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Indianapolis, Indiana  
August 29, 2018

## **Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance**

### **Independent Auditor's Report**

Board of Directors  
Indianapolis Public Transportation Corporation  
Indianapolis, Indiana

#### **Report on Compliance for Each Major Federal Program**

We have audited Indianapolis Public Transportation Corporation's (IPTC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on IPTC's major federal program for the year ended December 31, 2017. IPTC's major federal program is 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for IPTC's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit 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). 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 IPTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for IPTC's major federal program. However, our audit does not provide a legal determination of IPTC's compliance.

## ***Opinion on IPTC's Major Federal Program***

In our opinion, IPTC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

## **Report on Internal Control Over Compliance**

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

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

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

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

**BKD, LLP**

Indianapolis, Indiana  
August 29, 2018



**Indianapolis Public Transportation Corporation**  
**A Component Unit of Consolidated City of Indianapolis-Marion County**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2017**

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. IPTC qualified as a low-risk auditee?  Yes  No

**Indianapolis Public Transportation Corporation**  
**A Component Unit of Consolidated City of Indianapolis-Marion County**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2017**

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding
2017-001	<p><b>Criteria or Specific Requirement:</b> Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p><b>Condition:</b> IPTC’s internal control environment over financial reporting did not timely detect material adjustments to the statement of net position and operating statement as it relates to tracking and valuing capital assets. (material weakness)</p> <p><b>Context:</b> Effective and accurate financial statements are essential to managing and communicating financial position and results of operations to interested parties. Two adjustments were proposed to management and recorded and one adjustment was proposed and not recorded that impacted capital assets and depreciation expense. As a result, adjustments were necessary that decreased capital assets by \$9.0 million and increased depreciation expense and legal expenses by \$8.7 million and \$300,000, respectively.</p> <p><b>Effect:</b> Material misstatements within the financial statements.</p> <p><b>Cause:</b> Inadequate internal controls over the year-end and monthly reconciliation process resulting in undetected adjustments within capital assets.</p> <p><b>Recommendation:</b> We recommend IPTC’s management strengthen controls and processes related to monthly and year-end closing procedures including reconciliation and review of capital assets.</p> <p><b>Views of Responsible Officials and Planned Corrective Action:</b> During and after 2017, the Finance Department of IPTC has continued to review positions, roles of staff and policy.</p> <p>Considerable staffing changes have been made:</p> <ul style="list-style-type: none"> <li>• Replacement of the Accounting Manager</li> <li>• Addition of a Fixed Asset Accountant</li> <li>• Addition of an Accounts Receivable Accountant</li> <li>• Addition of two Accounts Payable Accountants</li> </ul>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of Consolidated City of Indianapolis-Marion County**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2017**

Reference Number	Finding
	<p>The workload and responsibilities have been reviewed and realigned for staff.</p> <p>IPTC leadership approved the replacement of the financial system of record (Ellipse). The first phase of the new financial system (Dynamics AX) was implemented in November 2017. One concern addressed in finding 2017-001 is the Workflow and Approval process in the new system. Staff members can no longer make adjusting entries into the financial system without online review and approval. The Workflow/Approval process in Dynamics AX forces separation of duties and review of transactions. A transaction cannot be entered without addition staff/management knowledge.</p> <p>The duplicate entry causing finding 2017-001 was made in the old financial system (Ellipse), which resulted in an incorrect balance to be transferred from that legacy system.</p> <p>The individual person responsible for the duplicate entry is no longer employed by IndyGo and a new manager is in place.</p> <p>IPTC's Board of Directors voted to adopt an Internal Controls Policy which complies with the Indiana State Board of Accounts Uniform Internal Controls Standards for Indiana Political Subdivisions. The Finance Management team along with the Training and Development Division will work to ensure that all officers and employees whose official duties fall within the scope of the policy receive training.</p> <p>The process which caused the duplicate entry is now entirely changed. In the previous accounting system (Ellipse), there was not a Fixed Asset Module and depreciation had to be manually calculated with a manual transaction entered into the ledger. Fixed Assets had to be manually tracked outside the system along with the depreciation calculation. The new financial system (Dynamics AX) has a complete Fixed Asset Module. Depreciation is scheduled and calculated within the module automatically based on the required parameters for each asset type. The system also creates the necessary entry when depreciation processed. Manual entries are no longer part of the mix.</p>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of Consolidated City of Indianapolis-Marion County**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2017**

**Findings Required to be Reported by the Uniform Guidance**

<b>Reference Number</b>	<b>Finding</b>
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No matters are reportable.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of Consolidated City of Indianapolis-Marion County**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended December 31, 2017**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
2016-001	<b>Controls Over Financial Reporting:</b> Management is responsible for establishing and maintaining effective internal controls over financial reporting. IPTC's internal control environment over financial reporting did not timely detect material adjustments to the statement of net position and operating statement of IPTC. As a result, multiple adjustments were recorded that impacted various lines of IPTC's financial statements.	Unresolved - see finding 2017-001



**TO:** Federal Audit Clearinghouse  
**FROM:** Nancy Manley, VP of Finance and CFO  
**SUBJECT:** Corrective Action Plan

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**FINDING: 2017-001**

*Criteria or Specific Requirement:*

Management is responsible for establishing and maintaining effective internal controls over financial reporting.

*Condition:*

IPTC's internal control environment over financial reporting did not timely detect material adjustments to the statement of net position and operating statement as it relates to tracking and valuing capital assets. (material weakness)

*Context:*

Effective and accurate financial statements are essential to managing and communicating financial position and results of operations to interested parties. Two adjustments were proposed to management and recorded and one adjustment was proposed and passed on being recorded that impacted capital assets and depreciation expense. As a result, adjustments were recorded necessary that decreased capital assets by \$9.0 million and increased depreciation expense and legal expenses by \$8.7 million and \$300,000, respectively.

*Effect:*

Material misstatements within the financial statements.

*Cause:*

Inadequate internal controls over the year-end and monthly reconciliation process resulting in undetected adjustments within capital assets.

*Recommendation:*

We recommend IPTC's management strengthen controls and processes related to monthly and year-procedures including reconciliation and review of capital assets.

***Corrective Action Plan: Finding 2017-001:***

Activities to implement the 2016 corrective action plan and subsequently this corrective action plan were initiated early 2017. With the support of the IPTC Board of Directors, IPTC began the process of replacing the financial system of record (Ellipse) in 2017. The first phase of the new financial system (Dynamics AX) was implemented on November 1, 2017. Dynamics AX has corrected many, if not all, of the concerns addressed in Finding 2017-001, as there are fewer manual adjusting journal entries processed monthly, quarterly and annually.

In early 2018, Finance management identified the need for additional Accountant position to focus on Accounts Payable, Accounts Receivable and Fixed Assets. These additional positions will evenly distribute work to a manageable level. Also, with the creation of a specific position for Fixed Assets, the ability to review asset depreciation schedules monthly will be attainable. With the implementation of Dynamics AX, any adjusting journals will run through a workflow process which will require the approval of a senior position. This position and process will correct Finding 2017-001.

IPTC Board of Directors adopted an Internal Controls Policy which complies with the Indiana State Board of Accounts Uniform Internal Control Standards for Indiana Political Subdivisions. The Finance Management team is working to ensure that all officers and employees whose official duties fall within the scope of the policy receive training by the end of 2018 or the first quarter of 2019. Finance will work with HR to provide the Internal Controls training to all new hires whose official duties fall within the scope of the policy as part of their position specific training or it will be incorporated into the onboarding process in 2019.

All Executive members and Finance Directors have been provided the required training and have submitted as signed acknowledged of training form. A copy of these forms will be maintained by the Chief Financial Officer and a copy has been provided to HR for the employee file.

***Responsible parties:***

The first phase of IPTC's new financial system of record, Microsoft Dynamics AX, went live on November 1, 2017. Microsoft Dynamics AX, is designed to comply with Generally Acceptable Accounting Principles (GAAP). This system requires checks and balances as well as separation of duties based on position specific rules applied. This includes a workflow process for approvals within the system.

All Microsoft Dynamics AX users will receive system training based on the responsibilities of the position. Training was provided prior to go-live and again in the second quarter of 2018. The Chief Financial Officer and Finance management team is responsible for providing continual training to new and existing employees as necessary.

The provided training will emphasize the importance of separation of duties and the Internal Controls policy/requirements.

The Chief Financial Officer and Accounting Director is responsible for providing all employees with responsibilities associated with accounting, purchasing or fiscal management on the Internal Controls Policy by December 31, 2018. Any newly hired staff with responsibilities associated with accounting, purchasing or fiscal management will be provided training as part of their position specific training or during the onboarding process in 2019. On-going training updates will be provided on a quarterly basis.