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July 31, 2019

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

We have reviewed the audit report of Indianapolis Public Transportation Corporation which was opined on by BKD, LLP, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of Indianapolis Public Transportation Corporation as of December 31, 2018, 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 52. 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 54.

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, 2018

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**December 31, 2018**

**Contents**

<b>Independent Auditor’s Report.....</b>	<b>1</b>
<b>Management’s Discussion and Analysis .....</b>	<b>4</b>
 <b>Financial Statements</b>	
Statement of Net Position.....	10
Statement of Revenues, Expenses and Changes in Net Position.....	12
Statement of Cash Flows .....	13
Notes to Financial Statements .....	15
 <b>Required Supplementary Information</b>	
Schedule of Changes in Net Pension (Asset) Liability and Related Ratios.....	41
Schedule of IPTC’s Pension Contributions .....	42
Schedule of Changes in IPTC’s Total OPEB Liability and Related Ratios .....	43
 <b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards .....	44
Notes to the Schedule of Expenditures of Federal Awards .....	45
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> - Independent Auditor’s Report .....	46
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance - Independent Auditor’s Report .....	48
Schedule of Findings and Questioned Costs .....	50
Status of Prior Audit Findings.....	54

## 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, 2018, 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, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, for 2018, IPTC adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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.

## ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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 June 28, 2019, 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  
June 28, 2019

# **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, 2018. 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, 2018 by \$176.0 million (net position). Of this amount, \$42.4 million (unrestricted net position) may be used to meet IPTC's ongoing obligations arising from providing transportation service to the community at December 31, 2018.
- Fare revenues for 2018 increased 3% from 2017.
- FTA capital contributions for 2018 increased approximately \$21 million, or 217% from 2017.
- FTA local operating and planning grants and preventative maintenance funding for 2018 decreased approximately \$8 million, or 61% from 2017.
- Operating expenses before depreciation for 2018 increased approximately \$17 million, or 24% from 2017.
- Net position increased by approximately \$51.9 million or 42% in 2018.
- For 2018, IPTC adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Prior year comparative information contained herein has not been restated for adoption of GASB 75.

#### ***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, 2018 were approximately \$226.1 million. These changes represent an increase of approximately 65% in 2018. Total liabilities and deferred inflows of resources approximated \$50.1 million at December 31, 2018. These changes represent an increase of 334% in 2018.

Approximately \$125.7 million, or 71%, of the net position reflects investments in capital assets, less related debt at December 31, 2018. Approximately \$7.0 million, or 4%, of the net position is restricted for future acquisition of capital assets and approximately \$1.0 million, or 1% is restricted to service IPTC's bonds payable at December 31, 2018. Approximately \$42.4 million, or 24%, may be used to meet IPTC's ongoing obligations arising from providing transportation services to the community at December 31, 2018.

**Table 1 - Net Position**

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Current assets	\$ 84,346,544	\$ 17,817,828
Capital assets (net)	134,302,814	110,868,311
Other noncurrent assets	<u>6,951,727</u>	<u>8,444,301</u>
Total assets	225,601,085	137,130,440
<b>Deferred Outflows of Resources</b>		
	<u>499,972</u>	<u>76,861</u>
Total assets and deferred outflows of resources	<u><u>\$ 226,101,057</u></u>	<u><u>\$ 137,207,301</u></u>
<b>Liabilities</b>		
Current liabilities	\$ 20,387,197	\$ 10,634,076
Noncurrent liabilities	<u>29,657,832</u>	<u>333,157</u>
Total liabilities	50,045,029	10,967,233
<b>Deferred Inflows of Resources</b>		
	<u>46,162</u>	<u>586,866</u>
Total liabilities and deferred inflows of resources	<u><u>50,091,191</u></u>	<u><u>11,554,099</u></u>
<b>Net Position</b>		
Net investment in capital assets	125,655,042	109,603,972
Restricted for capital assets acquisitions	6,951,727	6,582,761
Restricted for net pension asset	-	1,006,113
Restricted for debt service	1,000,000	-
Unrestricted	<u>42,403,097</u>	<u>8,460,356</u>
Total net position	<u><u>176,009,866</u></u>	<u><u>125,653,202</u></u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 226,101,057</u></u>	<u><u>\$ 137,207,301</u></u>

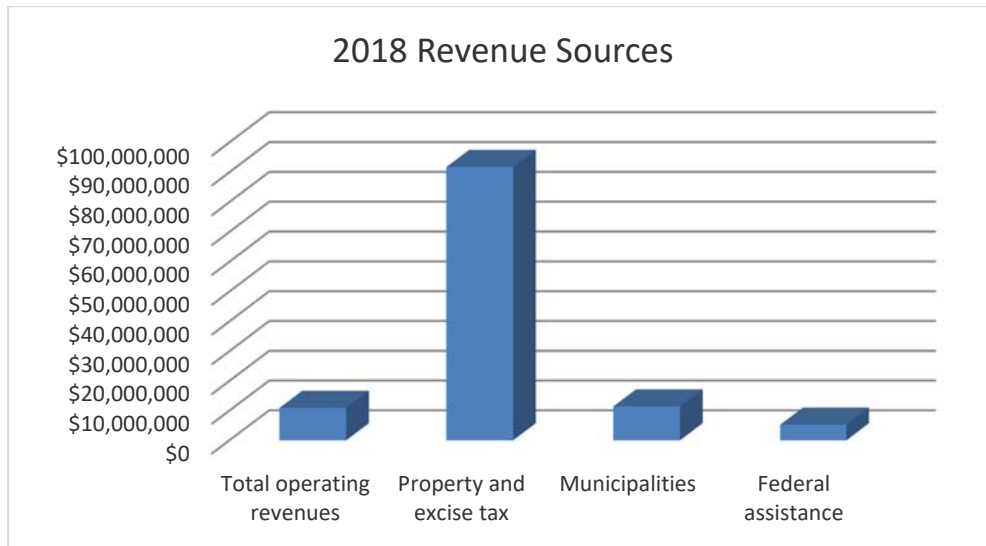
## Changes in Net Position

The change in net position for 2018 represents an increase of approximately \$51.9 million, or 42%. Total revenues for 2018 increased approximately \$66.6 million, or 80%. The increase is mainly attributed to an additional \$52 million of transit income tax collections that went into effect January 1, 2018. Additionally, IPTC recognized an increase of approximately \$21 million in federal capital grants for significant ongoing capital projects during 2018. Overall operating expenses, excluding depreciation increased \$16.9 million, or 24%, in 2018, which was primarily attributed to an increase in transit services provided during 2018.

**Table 2 - Changes in Net Position**

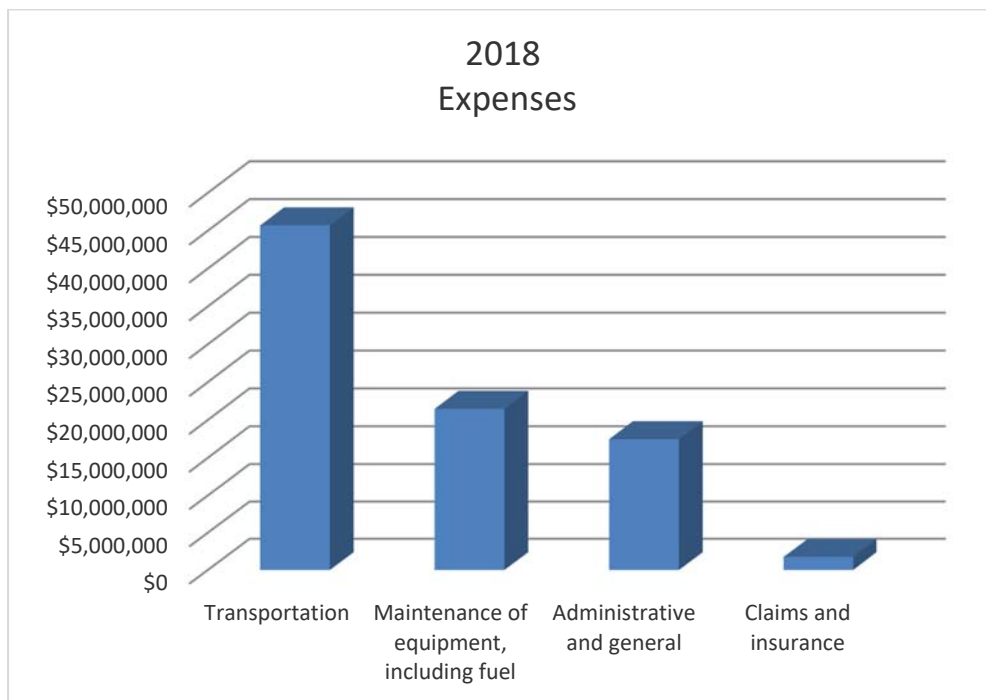
	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Passenger fares	\$ 10,287,454	\$ 9,990,230
Advertising	636,540	638,326
Total operating revenues	<u>10,923,994</u>	<u>10,628,556</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property, income and excise tax	91,732,257	39,254,016
Municipalities	11,386,129	11,002,081
Federal assistance	5,243,143	13,331,008
Contributions - capital grants	31,355,362	9,903,586
Loss on disposal of capital assets	(425,054)	(515,904)
Other net revenues	161,846	145,659
Total nonoperating revenues	<u>139,453,683</u>	<u>73,120,446</u>
Total revenues	<u>150,377,677</u>	<u>83,749,002</u>
<b>Operating Expenses</b>		
Transportation	45,696,369	38,377,545
Maintenance of equipment, including fuel	21,471,248	16,708,390
Administrative and general	17,453,459	12,123,381
Claims and insurance	1,754,005	2,288,866
Depreciation	12,052,443	10,303,582
Total operating expenses	<u>98,427,524</u>	<u>79,801,764</u>
<b>Change in Net Position</b>	51,950,153	3,947,238
<b>Net Position, Beginning of Year</b> , as previously reported	125,653,202	121,705,964
<b>Change in Accounting Principle</b>	<u>(1,593,489)</u>	<u>-</u>
<b>Net Position, Beginning of Year</b> , as restated	<u>124,059,713</u>	<u>121,705,964</u>
<b>Net Position, End of Year</b>	<u>\$ 176,009,866</u>	<u>\$ 125,653,202</u>

**Revenues:** For 2018, total operating revenues increased approximately \$295,000 or 3%. For 2018, nonoperating revenues excluding capital grant contributions and other revenue (expenses), increased by approximately \$44.9 million, or 71%.



The revenues and percentages presented above exclude “Contributions - capital grants” of \$31,355,362 and “Other net revenues” of \$161,846 for 2018.

**Expenses:** During 2018, total operating expenses, excluding depreciation, were approximately \$86.4 million. This is an increase of \$16.9, or 24% from 2017. This increase is primarily attributed to an increase in transportation services as a result of expanded routes and services in 2018.



The expenses and percentages presented above exclude “depreciation” expense of \$12,052,443 for 2018.

## Capital Asset and Debt Administration

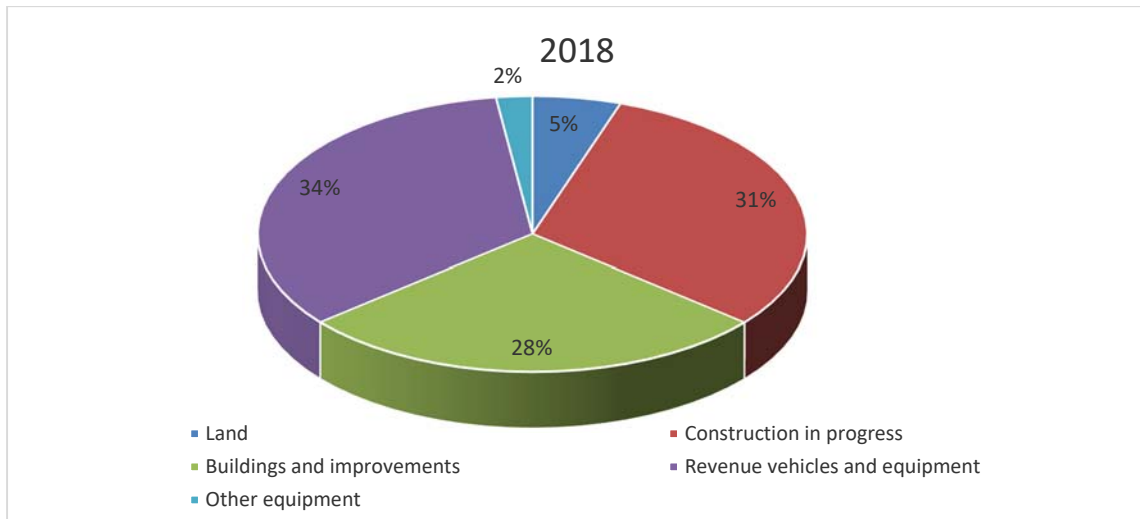
### Capital Assets

As of December 31, 2018, IPTC had invested approximately \$134.3 million in capital assets, net of accumulated depreciation. Compared to the prior year, capital assets increased by approximately \$23.4 million for the year ended December 31, 2018. Depreciable capital acquisitions for 2018 were approximately \$16.7 million with a net loss on retirement of capital assets totaling \$425,000 recognized during 2018. Net increase in construction in progress was \$23.9 million for 2018, which is primarily the result of IPTC's significant expansion of services in process at December 31, 2018. 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 2018 included 17 low floor 40 ft. buses totaling approximately \$7.5 million and continued development of the Red Line and Purple Line totaling approximately \$20 million.

Percentage allocation invested in net capital assets:



**Debt Disclosures**

As of December 31, 2018, IPTC had approximately \$28.8 million of bonds and notes payable. In November 2018, IPTC issued bonds in the amount of \$26 million primarily to be used for capital projects. During 2018, bonds and notes payable were repaid pursuant to the maturity schedule of each issue. As of December 31, 2018, IPTC had no financial restrictive covenants associated with its outstanding debt other than holding minimum debt service funds. 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. Throughout 2018 and 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.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Statement of Net Position**  
**December 31, 2018**

**Assets and Deferred Outflows of Resources**

**Current Assets**

Cash and cash equivalents	
Unrestricted - working capital	\$ 19,925,886
Designated - capital asset acquisitions	9,376,215
Unrestricted - liability reserve	828,344
Restricted - debt service and unspent bond proceeds	29,486,412
Total cash and cash equivalents	59,616,857
Receivables	
Federal grants	20,762,117
Operations receivables, net	363,929
Total receivables	21,126,046
Other current assets	
Materials and supplies inventory	3,560,172
Deposits and prepaid expenses	43,469
Total other current assets	3,603,641
Total current assets	84,346,544

**Noncurrent Assets**

Restricted investments - capital asset acquisitions	6,951,727
Capital assets	
Nondepreciable assets	
Land	6,975,654
Construction in progress	41,400,443
Total nondepreciable assets	48,376,097
Depreciable assets	
Buildings and improvements	84,761,423
Revenue vehicles and equipment	98,065,781
Other equipment	17,565,557
Shelters and signs	4,853,880
Total depreciable assets	205,246,641
Total capital assets	253,622,738
Accumulated depreciation	(119,319,924)
Capital assets, net of depreciation	134,302,814
Total noncurrent assets	141,254,541
Total assets	225,601,085

**Deferred Outflows of Resources**

Deferred outflows - pensions	499,972
Total assets and deferred outflows of resources	\$ 226,101,057

## Liabilities, Deferred Inflows of Resources and Net Position

	<u>2018</u>
<b>Current Liabilities</b>	
Accounts and contract services payable	\$ 15,289,522
Accrued payroll and benefits	1,477,104
Unearned fare revenue	350,997
Notes payable	284,265
Bonds payable, current portion	1,995,000
Risk management - unpaid claim estimates	900,464
Other unearned revenue	89,845
Total current liabilities	<u>20,387,197</u>
<b>Noncurrent Liabilities</b>	
Risk management - unpaid claim estimate	117,985
Bonds payable, net of current portion	26,564,064
Net pension liability	1,955,044
Other postemployment benefit liability (OPEB)	1,020,739
Total noncurrent liabilities	<u>29,657,832</u>
Total liabilities	<u>50,045,029</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows - pensions	<u>46,162</u>
<b>Net Position</b>	
Net investment in capital assets	125,655,042
Restricted for capital assets acquisitions	6,951,727
Restricted for debt service	1,000,000
Unrestricted	42,403,097
Total net position	<u>176,009,866</u>
Total liabilities and net position	<u>\$ 226,101,057</u>

**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, 2018**

<b>Operating Revenues</b>	
Passenger fares	\$ 10,287,454
Advertising	636,540
Total operating revenues	<u>10,923,994</u>
<b>Operating Expenses</b>	
Transportation	45,696,369
Maintenance of equipment, including fuel	21,471,248
Administrative and general	17,453,459
Claims and insurance	1,754,005
Depreciation	12,052,443
Total operating expenses	<u>98,427,524</u>
<b>Operating Loss</b>	<u>(87,503,530)</u>
<b>Nonoperating Revenues (Expenses)</b>	
Operating assistance	
Property, income and excise tax	91,732,257
Municipalities	11,386,129
Federal and local operating and planning grants, and preventative maintenance funding	5,243,143
Loss on disposal of capital assets	(425,054)
Other net revenues	161,846
Total nonoperating revenue	<u>108,098,321</u>
<b>Change in Net Position Before Capital Contributions</b>	20,594,791
Contributions - capital grants	<u>31,355,362</u>
<b>Change in Net Position</b>	51,950,153
<b>Net Position, Beginning of Year, as previously reported</b>	125,653,202
<b>Change in Accounting Principle</b>	<u>(1,593,489)</u>
<b>Net Position, Beginning of Year, as restated</b>	<u>124,059,713</u>
<b>Net Position, End of Year</b>	<u><u>\$ 176,009,866</u></u>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Statement of Cash Flows**  
**Year Ended December 31, 2018**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 10,489,551
Payments for transportation	(40,559,560)
Payments for maintenance of equipment, including fuel	(21,779,717)
Payments for administrative and general	(17,596,720)
Claims and insurance paid to external parties	(2,271,654)
Net cash used in operating activities	<u>(71,718,100)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Property, income and excise tax distributions	91,732,257
Assistance from municipalities	11,221,555
Federal operating assistance	5,243,143
Borrowings on line of credit	7,000,000
Repayments on line of credit	(7,000,000)
Other noncapital financing	88,533
Net cash provided by noncapital financing activities	<u>108,285,488</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Capital grant receipts	13,888,453
Purchases of capital assets	(30,598,393)
Proceeds from sale of capital assets	125,873
Proceeds from issuance of bonds	28,590,522
Interest paid	(102,815)
Net cash provided by (used in) capital and related financing activities	<u>11,903,640</u>
<b>Cash Flows From Investing Activities</b>	
Purchases of investments	(4,689,060)
Proceeds from sale of investments	4,800,000
Interest received on cash and cash equivalents	90,702
Net cash provided by investing activities	<u>201,642</u>
<b>Net Change in Cash and Cash Equivalents</b>	48,672,670
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>10,944,187</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 59,616,857</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, 2018**

<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>	
Operating loss	\$ (87,503,530)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation expense	12,052,443
Changes in assets and liabilities	
Other receivables	(80,669)
Materials and supplies inventory	(308,469)
OPEB liability	(143,261)
Deferred outflows of resources - pensions	(423,111)
Deferred inflows of resources - pensions	(540,704)
Net pension asset/liability	2,961,157
Accounts and contract services payable	2,485,555
Accrued payroll and benefits	316,200
Unearned fare revenue	(16,062)
Risk management	<u>(517,649)</u>
Net cash used in operating activities	<u>\$ (71,718,100)</u>
<b>Noncash Investing, Capital and Financing Activities</b>	
Capital assets in accounts payable	\$ 6,703,819
Payment of note payable via transfer of other assets	350,146
Loss on disposal of capital assets	425,054
Capital grants/contributions included in receivables	17,466,909

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**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, income 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, 2018**

***Newly Issued Accounting Pronouncements***

GASB Statement No. 75 - During 2018, IPTC implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). This statement requires governments to recognize their unfunded accrued OPEB liability on the face of their financial statements along with incorporating more extensive note disclosures and required supplementary information about their OPEB liabilities and related information. The adoption of GASB Statement No. 75 resulted in a \$1,593,489 decrease in beginning net position as of January 1, 2018. Refer to Note 9 for more information regarding IPTC's OPEB.

During 2018, IPTC also implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period it occurs rather than reporting as part of the historical cost of a capital asset. Adoption of this standard did not result in a restatement. IPTC ceased capitalizing interest in 2018.

***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, 2018, cash equivalents consisted of demand and money market deposit accounts.

***Property and Income 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 the 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.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

***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.

***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, 2018. 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.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

- 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.

**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 statement 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 statement of net position.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

***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 nonvesting 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.

***Postemployment Benefits Other Than Pensions (OPEB)***

IPTC has a single-employer defined benefit other postemployment benefit (OPEB) plan, Postemployment Medical and Life Benefits Plan (the OPEB Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, amounts have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

***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.

***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. 83, *Certain Asset Retirement Obligations*; Statement No. 84, *Fiduciary Activities*; Statement No. 87, *Leases*; Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; and Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. IPTC intends to adopt these GASB Statements, as applicable, on their respective effective dates.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**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:

Current Assets	
Cash and cash equivalents	
Unrestricted - working capital	\$ 19,925,886
Unrestricted - liability reserve	828,344
Designated - capital asset acquisitions	9,376,215
Restricted - debt service and unspent bond proceeds	29,486,412
Noncurrent Assets	
Restricted investments - capital asset acquisitions	<u>6,951,727</u>
	<u>\$ 66,568,584</u>
Cash and Cash Equivalents	\$ 59,616,857
Investments	<u>6,951,727</u>
	<u>\$ 66,568,584</u>

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

Deposits	
Cash deposits	\$ 59,616,857
Investments	
Government-backed mortgage notes	<u>6,951,727</u>
	<u>\$ 66,568,584</u>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

***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, 2018, IPTC had the following investments and maturities:

	<b>Fair Value</b>	<b>Maturities (in Years)</b>	
		<b>Less Than 1</b>	<b>1 to 5</b>
Government-backed mortgage notes	\$ 6,951,727	\$ 3,976,040	\$ 2,975,687

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**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, 2018, IPTC's investments were rated by Moody's Investor Services or Standard and Poor's as follows:

	<u>Fair Value</u>	<u>AAAm</u>	<u>Not Rated</u>
Government-backed mortgage notes	\$ 6,951,727	\$ 6,951,727	\$ -

**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, 2018, 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, 2018.

	<u>Fair Value</u>	<u>% Rounded</u>
Government-backed mortgage notes	\$ 6,951,727	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.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**Note 3: Capital Assets**

Capital assets activity for the year ended December 31 was:

	January 1, 2018	Additions/ Transfers	Disposals/ Transfers	December 31, 2018
<b>Capital Assets Cost</b>				
Nondepreciable capital assets				
Land	\$ 6,975,654	\$ -	\$ -	\$ 6,975,654
Construction in progress*	17,510,647	27,435,686	(3,545,890)	41,400,443
Total nondepreciable capital assets	<u>24,486,301</u>	<u>27,435,686</u>	<u>(3,545,890)</u>	<u>48,376,097</u>
Depreciable capital assets				
Buildings and improvements	89,025,732	329,415	(4,593,724)	84,761,423
Revenue vehicles and equipment	91,316,883	9,809,369	(3,060,471)	98,065,781
Other equipment	16,187,550	1,734,775	(356,768)	17,565,557
Shelters and signs	-	4,853,880	-	4,853,880
Total depreciable capital assets	<u>196,530,165</u>	<u>16,727,439</u>	<u>(8,010,963)</u>	<u>205,246,641</u>
Less: accumulated depreciation for				
Buildings and improvements	(47,796,892)	(3,660,262)	4,294,773	(47,162,381)
Revenue vehicles and equipment	(48,056,594)	(7,050,570)	2,507,764	(52,599,400)
Other equipment	(14,294,669)	(1,341,611)	356,768	(15,279,512)
Shelters and signs	-	-	(4,278,631)	(4,278,631)
Total accumulated depreciation	<u>(110,148,155)</u>	<u>(12,052,443)</u>	<u>2,880,674</u>	<u>(119,319,924)</u>
Total depreciable capital assets, net	<u>86,382,010</u>	<u>4,674,996</u>	<u>(5,130,289)</u>	<u>85,926,717</u>
Total capital assets, net	<u>\$ 110,868,311</u>	<u>\$ 32,110,682</u>	<u>\$ (8,676,179)</u>	<u>\$ 134,302,814</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.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

***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.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

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 noncompliance 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 \$600,000. 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.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**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 2018 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, 2018 was as follows for those risks for which IPTC bears risk:

	<u>2018</u>	<u>2017</u>
Unpaid claims, beginning of year	\$ 1,536,098	\$ 879,839
Incurred claims and changes in claim estimates	2,569,318	2,388,675
Claim payments	<u>(3,086,967)</u>	<u>(1,732,416)</u>
Unpaid claims, end of year	<u>\$ 1,018,449</u>	<u>\$ 1,536,098</u>
Current portion	\$ 900,464	\$ 1,202,941
Noncurrent portion	<u>117,985</u>	<u>333,157</u>
Unpaid claims, end of year	<u>\$ 1,018,449</u>	<u>\$ 1,536,098</u>

During 1986, IPTC's Board of Directors approved the establishment of a nonreverting 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.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**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, 2018 (as Restated)	Additions	Reductions	December 31, 2018	Current	Noncurrent
<b>Long-Term Debt</b>						
Series 2018A bonds payable	\$ -	\$ 26,000,000	\$ -	\$ 26,000,000	\$ 1,995,000	\$ 24,005,000
Unamortized bond premium	-	2,590,522	(31,458)	2,559,064	-	2,559,064
City of Indianapolis notes payable	621,977	12,434	(350,146)	284,265	284,265	-
Total bonds and notes payable	<u>621,977</u>	<u>28,602,956</u>	<u>(381,604)</u>	<u>28,843,329</u>	<u>2,279,265</u>	<u>26,564,064</u>
<b>Other Long-Term Liabilities</b>						
Risk management payable	1,536,098	2,569,318	(3,086,967)	1,018,449	900,464	117,985
OPEB liability	1,164,000	40,208	(183,469)	1,020,739	-	1,020,739
Net pension liability (asset)	(1,006,113)	3,022,966	(61,809)	1,955,044	-	1,955,044
Total other long-term liabilities	<u>1,693,985</u>	<u>5,632,492</u>	<u>(3,332,245)</u>	<u>3,994,232</u>	<u>900,464</u>	<u>3,093,768</u>
Total long-term obligations	<u>\$ 2,315,962</u>	<u>\$ 34,235,448</u>	<u>\$ (3,713,849)</u>	<u>\$ 32,837,561</u>	<u>\$ 3,179,729</u>	<u>\$ 29,657,832</u>

**Series 2018A Bonds Payable**

The Indianapolis Local Public Improvement Bond Bank Local Income Tax Revenue Bonds, Series 2018A, dated November 21, 2018, were issued in the aggregate principal amount of \$26,000,000. The Series 2018A bond proceeds are planned to be used for IPTC's rapid transit plan as well as paratransit infrastructure and bus replacement. The bonds bear interest at 5.0%, payable on January 15 and July 1 annually, beginning in 2019 and ending January 15, 2028. The trust indenture includes minimum debt service reserve requirements to be held on deposit.

At December 31, 2018, bonds payable consisted of the following:

Series 2018A bonds payable	\$ 26,000,000
Plus: net unamortized premium	2,559,064
Total bonds payable	<u>28,559,064</u>
Less: current maturities	<u>(1,995,000)</u>
	<u>\$ 26,564,064</u>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

The scheduled debt service requirements on the bonds payable for years subsequent to December 31, 2018 are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 1,995,000	805,890	\$ 2,800,890
2020	2,345,000	1,144,350	3,489,350
2021	2,460,000	1,025,725	3,485,725
2022	2,590,000	901,100	3,491,100
2023	2,710,000	783,425	3,493,425
2024 - 2028	13,900,000	1,794,625	15,694,625
	<u>\$ 26,000,000</u>	<u>\$ 6,455,115</u>	<u>\$ 32,455,115</u>

***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 2018, IPTC provided \$349,486 in the form of passenger bus tickets for the benefit of the City of Indianapolis, which reduced the outstanding loan balance.

***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 \$7,000,000 on the line during 2018. No balance existed as of December 31, 2018.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**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 2018 were \$900,509.

***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.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**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 was 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, 2018, are:

Inactive employees or beneficiaries currently receiving benefits	127
Inactive employees entitled to but not yet receiving benefits	2
Active employees	28
	157

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**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. As of January 2006, all vested active union employees who remain in the Plan will contribute 4.5% of the total compensation received by such employee and IPTC will contribute 3.5% of their pay, as documented in the arbitration award in effect through and until June 30, 2018, which shall automatically continue in effect for successive periods of three years each after June 30, 2018. Employer contributions for 2018 were \$61,809.

**Net Pension Liability (Asset)**

IPTC's net pension liability (asset) was measured as of December 31, 2018, for the year ended December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by actuarial valuation as of December 31, 2018.

For the total pension liability (asset) at December 31, 2018, 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-2018.

The actuarial assumptions used in the December 31, 2018 valuations were not based on the results of an actuarial experience study.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

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	74%	4.97%
Non-US equity	10%	6.38%
Fixed income	11%	2.13%
Cash	5%	0.34%
Total	100%	

***Discount Rate***

The discount rate used to measure the total pension liability was 5.46%, for the year ended December 31, 2018. 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 single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate (4.10%) applied to benefit payment, to the extent that the plan's fiduciary net position is not projected to be sufficient.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

Changes in the total pension liability, plan fiduciary net position and the net pension liability (asset) for 2018 are:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
<b>Balances at January 1, 2018</b>	\$ 9,311,944	\$ 10,318,057	\$ (1,006,113)
<b>Changes for the year</b>			
Interest	575,531	-	575,531
Service cost	21,125	-	21,125
Effect of economic/demographic gains (losses)	(183,410)	-	(183,410)
Effect of plan changes	1,567,592	-	1,567,592
Effect of assumptions, changes or inputs	705,896	-	705,896
Benefit payments, including refunds of employee contributions	(972,804)	(972,804)	-
Contributions - employer	-	61,809	(61,809)
Contributions - employee	-	79,473	(79,473)
Net investment income	-	(362,116)	362,116
Administrative expense	-	(53,589)	53,589
Net changes	<u>1,713,930</u>	<u>(1,247,227)</u>	<u>2,961,157</u>
<b>Balances at December 31, 2018</b>	<u>\$ 11,025,874</u>	<u>\$ 9,070,830</u>	<u>\$ 1,955,044</u>

The net pension liability (asset) of IPTC has been calculated using a discount rate of 5.46% at December 31, 2018. The following presents the net pension liability using a discount rate of 1% higher and 1% lower than the current rate.

	1% Decrease (4.46%)	Current Discount Rate (5.46%)	1% Increase (6.46%)
IPTC's net pension liability	\$ 2,752,761	\$ 1,955,044	\$ 1,244,659

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position, or fair value of Plan assets, at December 31, 2018 is as follows:

Cash and cash equivalents	\$ 353,220
Receivable investment income	7,569
Fixed income investments	1,038,671
Domestic equities	<u>7,671,370</u>
	<u>\$ 9,070,830</u>

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

For the year ended December 31, 2018, IPTC recognized pension expense of \$2,059,151. At December 31, 2018, IPTC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2018</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 45,407
Changes of assumptions	-	755
Net difference between projected and actual earnings on pension plan investments	<u>499,972</u>	<u>-</u>
	<u>\$ 499,972</u>	<u>\$ 46,162</u>

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to pensions will be recognized in pension expense (reduction in pension expense) as follows:

<b>Year Ending December 31:</b>	<b><u>Amount</u></b>
2019	\$ 133,421
2020	38,369
2021	81,124
2022	200,896

***Payable to the Pension Plan***

At December 31, 2018, IPTC had no outstanding amount of contributions owed to the pension plan required for the year.

**Note 9: Other Postemployment Benefit Plan**

IPTC adopted GASB Statement No. 75 for the December 31, 2018 year-end and all applicable disclosures are included below.

***Plan Description and Benefits Provided***

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 and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

The employees covered by the benefit terms at the measurement date of December 31, 2018 are:

Inactive employees or beneficiaries currently receiving benefit payments	99
Active employees	28
	127

**Total OPEB Liability**

The IPTC's total OPEB liability of \$1,020,739 was measured as of December 31, 2018 for the year ended December 31, 2018, and was determined by an actuarial valuation as of that date. The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.30%
Discount rate	4.10%
Salary increases	n/a
Employee turnover/withdrawal	Crocker-Sarason T-4 Table
Life insurance premium	\$4.07/mo./\$1,000 of coverage

Retirement rates are shown below:

Age	Rates
55	2.5%
56-59	1.0%
60	5.0%
61	1.0%
62	30.0%
63	10.0%
64	20.0%
65+	100.0%

The discount rate was based on the Bond Buyer General Obligation 20 - Bond Municipal Index.

Mortality rates were based on the RP 2014, as appropriate with adjustments for mortality improvements based on MP-2018.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

***Changes in the Total OPEB Liability***

Changes in the total OPEB liability are:

	<b>Total OPEB Liability 2018</b>
	<b>\$ 1,164,000</b>
Balance, beginning of year	<b>\$ 1,164,000</b>
Changes for the year:	
Service cost	1,238
Interest	38,970
Effect of economic/demographic losses	(59,107)
Effect of assumption changes or inputs	(59,000)
Benefit payments	(65,362)
Net change	<b>(143,261)</b>
Balance, end of year	<b>\$ 1,020,739</b>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.44% at December 31, 2017 to 4.10% at December 31, 2018.

***Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates***

The total OPEB liability of the IPTC has been calculated using a discount rate of 4.10%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	<b>1% Decrease (3.10%)</b>	<b>Current Discount Rate (4.10%)</b>	<b>1% Increase (5.10%)</b>
IPTC's net OPEB liability	\$ 1,105,463	\$ 1,020,739	\$ 946,909

Health Care Cost Trend Rates, the rates of change in per capita health claims over time as a result of factors such as medical inflation, utilization of healthcare services, plan design and technological developments, are not applicable due to the nature of the plan benefits.

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the year ended December 31, 2018, IPTC recognized OPEB expense of \$77,899. At December 31, 2018, IPTC did not have any reported deferred outflows of resources or deferred inflows of resources related to OPEB because the closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period was less than one year for the applicable OPEB items.

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

IPTC categorizes 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, 2018:

- Government-backed mortgage notes totaling \$6,951,727 as of December 31, 2018 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 2018:

Other Revenues	
Investment income	\$ 144,670
Miscellaneous	88,533
Pass-through grants for subrecipients	292,992
	526,195
Other Expenses	
Interest payable from restricted debt service assets	71,357
Pass-through grants to subrecipients	292,992
	364,349
	\$ 161,846

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Notes to Financial Statements**  
**December 31, 2018**

**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 and 2018, 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	\$	53.8
Construction management		9.3
Construction support		0.9
Fare collection		0.7
Professional services/ROW		12.0
Transit signal priority		1.6
Vehicles		16.1
		<hr/>
	\$	94.4
		<hr/> <hr/>

**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 (Asset) Liability and Related Ratios**

	2018	2017	2016	2015
<b>Total Pension Liability</b>				
Interest on total pension liability	\$ 575,531	\$ 605,983	\$ 602,323	\$ 623,493
Service cost	21,125	-	-	-
Effect of plan changes	1,567,592	-	-	-
Effect of economic/demographic gains or losses	(183,410)	(85,848)	(499,484)	(268,255)
Effect of assumptions, changes or inputs	705,896	(81,629)	(8,303)	333,067
Benefit payments, including refunds of employee contributions	(972,804)	(884,818)	(999,235)	(964,637)
Net change in total pension liability	1,713,930	(446,312)	(904,699)	(276,332)
Total pension liability - beginning	9,311,944	9,758,256	10,662,955	10,939,287
Total pension liability - ending (a)	11,025,874	9,311,944	9,758,256	10,662,955
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	61,809	124,276	159,746	164,076
Contributions - employee	79,473	88,269	88,923	96,872
Net investment income (loss)	(362,116)	1,214,040	823,838	(44,197)
Benefit payments, including refunds of employee contributions	(972,804)	(884,818)	(999,235)	(964,637)
Administrative expense	(53,589)	(37,156)	(29,504)	(21,917)
Net change in plan fiduciary net position	(1,247,227)	504,611	43,768	(769,803)
Plan fiduciary net position - beginning	10,318,057	9,813,446	9,769,678	10,539,481
Plan fiduciary net position - ending (b)	9,070,830	10,318,057	9,813,446	9,769,678
<b>IPTC's Net Pension Liability (Asset) - Ending (a) - (b)</b>	<b>\$ 1,955,044</b>	<b>\$ (1,006,113)</b>	<b>\$ (55,190)</b>	<b>\$ 893,277</b>
<b>Plan Fiduciary Net Position as a Percentage of the</b>				
Total Pension Liability (Asset)	82.27%	110.80%	100.57%	91.62%
<b>Covered Payroll</b>	<b>\$ 1,936,383</b>	<b>\$ 2,069,769</b>	<b>\$ 2,106,365</b>	<b>\$ 1,994,058</b>
<b>IPTC's Net Pension Liability (Asset) as a Percentage of Covered Payroll</b>	<b>100.96%</b>	<b>-48.61%</b>	<b>-2.62%</b>	<b>44.80%</b>

**Notes to Schedule:**

*Required supplementary information is not available for the preceding six 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.** Discount rate changed from 6.5% at December 31, 2017 to 5.46% at December 31, 2018

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 61,809	\$ 124,276	\$ 159,746	\$ 164,076
Contributions in relation to the contractually required contribution	<u>(61,809)</u>	<u>(124,276)</u>	<u>(159,746)</u>	<u>(164,076)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
IPTC's contributions as a percentage of contractually required contribution for pension	100%	100%	100%	100%
IPTC's covered payroll	<u>\$ 1,936,383</u>	<u>\$ 2,069,769</u>	<u>\$ 2,106,365</u>	<u>\$ 1,994,058</u>
Contributions as a percentage of covered payroll	3.2%	6.0%	7.6%	8.2%

**Notes to Schedule:**

*Required supplementary information is not available for the preceding six 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, 2019

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 one year with generational projection per Scale MP-2018

**Indianapolis Public Transportation Corporation**  
**A Component Unit of the Consolidated City of Indianapolis-Marion County**  
**Schedule of Required Supplementary Information**  
**Schedule of Changes in IPTC's Total OPEB Liability and Related Ratios**

	<b>2018</b>
<b>Total OPEB Liability</b>	
Service cost	\$ 1,238
Interest	38,970
Effect of economic/demographic losses	(59,107)
Effect of assumption changes or inputs	(59,000)
Benefit payments	(65,362)
<b>Net Change in Total OPEB Liability</b>	(143,261)
<b>Total OPEB Liability - Beginning</b>	1,164,000
<b>Total OPEB Liability - Ending</b>	\$ 1,020,739
<b>IPTC's Covered-Employee Payroll</b>	\$ 1,739,898
<b>Total OPEB Liability as a Percentage of Covered-Employee Payroll</b>	58.7%

**Notes to Schedule:**

*Required supplementary information is not available for the preceding nine 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.** Discount rate changed from 3.44% at December 31, 2017 to 4.10% at December 31, 2018

**Trust:** No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75

## **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, 2018**

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				
Capital Investment Grants	20.500	n/a	\$ -	\$ 13,557,300
Formula Grants	20.507	n/a	-	<u>13,768,573</u>
Total Federal Transit Cluster			-	<u>27,325,873</u>
Transit Services Program Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities				
	20.513	n/a	234,394	1,231,180
National Infrastructure Investments - TIGER	20.933	n/a	-	<u>158,185</u>
			<u>\$ 234,394</u>	<u>\$ 28,715,238</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, 2018**

**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, 2018. 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 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, 2018, 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 June 28, 2019, which contained an emphasis of a matter paragraph regarding a change in accounting principles.

#### ***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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

### ***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 result 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  
June 28, 2019

## **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 the 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, 2018. 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, 2018.

### **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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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  
June 28, 2019



**Indianapolis Public Transportation Corporation**  
**A Component Unit of Consolidated City of Indianapolis-Marion County**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2018**

8. The threshold used to distinguish between Type A and Type B programs was \$861,457.

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, 2018**

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

Reference Number	Finding
2018-001	<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. (significant deficiency)</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. Adjustments were proposed to management and recorded that impacted capital assets and payable balances. As a result, adjustments were recorded that increased capital assets and accounts payable by approximately \$500,000.</p> <p><b>Effect:</b> Without the proposed adjustments recorded, capital assets and accounts payable would have been materially misstated.</p> <p><b>Cause:</b> Inadequate internal controls over the year-end reconciliation of capital assets resulting in undetected adjustments.</p> <p><b>Recommendation:</b> We recommend IPTC’s management strengthen controls and processes related to monthly and year-end closing procedures surrounding capital assets and cutoff of amounts due for capital asset acquisitions.</p> <p><b>Views of Responsible Officials and Planned Corrective Action:</b> IPTC management will include more details of the review process into the standard operating procedure (SOP) for the reconciliation of capital projects, which will then be communicated and trained to our team members. Management will update the SOP with all the steps taken to identify and review capital project invoices received in the first 60 days of a new fiscal year to determine if the invoice should be rolled back into the prior fiscal year. For instance, if a capital project invoice for construction work conducted in November of fiscal year 2019 but the invoice is not received until February 2nd for 2020, the detailed review process will flag this invoice as a prior year expense, which then should be rolled back into fiscal year 2019.</p> <p>The new SOP will be completed by the end of July 2019 and all relevant team members will be advised and trained of the updated document. IPTC’s policy for year-end close will also be changed to reflect that a fiscal year will remain open for 60 days after December 31 of the prior year.</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, 2018**

**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, 2018**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
2017-001	<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 capital asset values. As a result, adjustments were recorded during the independent audit process that impacted various lines of IPTC's financial statements.	Partially resolved - see finding 2018-001



**The TO:** Federal Audit Clearinghouse  
**FROM:** Nancy Manley, VP of Finance and CFO  
**SUBJECT:** Corrective Action Plan – Finding 2018-001

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**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. (significant deficiency)

**Context:** Effective and accurate financial statements are essential to managing and communicating financial position and results of operations to interested parties. Adjustments were proposed to management and recorded that impacted capital assets and payable balances. As a result, adjustments were recorded that increased capital assets and accounts payable by approximately \$500,000.

**Effect:** Without the proposed adjustments recorded, capital assets and accounts payable would have been materially misstated.

**Cause:** Inadequate internal controls over the year-end reconciliation of capital assets resulting in undetected adjustments.

**Recommendation:** We recommend IPTC’s management strengthen controls and processes related to monthly and yearend closing procedures surrounding capital assets and cutoff of amounts due for capital asset acquisitions.

**Views of Responsible Officials and Planned Corrective Action:** Activities to implement the 2018 corrective action plan and subsequently this corrective action plan will begin in 2019.

IPTC management will include more details of the review process into the standard operating procedure (SOP) for the reconciliation of capital projects which will then be communicated and trained to our team members. Management will update the SOP with all the steps taken to identify and review capital project invoices received in the first 60 days of a new fiscal year to determine if the invoice should be rolled back into the prior fiscal year. For instance, if a capital project invoice for construction work conducted in November in the

prior fiscal year but the invoice is not received until February 2 of the new fiscal year, the detailed review process flags this invoice as a prior year expense which then should be rolled back into the previous fiscal year.

The new SOP will be completed by the end of July 2019 and all relevant team members will be advised and/or trained. IPTC's policy for year-end close will be changed to reflect that a fiscal year will remain open for 60 days after December 31 of the prior year for invoices related capital project.

The CFO, all Finance Directors and managers submit a signed acknowledged of receipt. A copy of the acknowledgements will be maintained by the Accounting Director.

*Responsible parties:*

The Chief Financial Officer and Finance management team is responsible for providing continual training to new and existing employees as necessary.

The Chief Financial Officer, Accounting Director, Accounting Manager, Grant Manager and Budget Director or Manager is responsible for year-end review and closeout process. This includes running reports from the official financial system which has the ability to drill down to specific invoices paid during a queried period. Any newly hired staff with responsibilities associated with review, reconciliation and adjustments or fiscal management will be provided the updated SOP as part of their department's specific training. A year-end review of all closeout procedures/policies will be conduct in the third quarter of each fiscal year.