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October 7, 2022

Board of Directors
Gary Public Transportation Corporation
200 West 4th Avenue
Gary, IN 46402

We have reviewed the audit report of Gary Public Transportation Corporation, which was opined on by Crowe LLP, Independent Public Accountants, for the period January 1, 2021 to December 31, 2021. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of Gary Public Transportation Corporation as of December 31, 2021, 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 on page 26. Please see the Schedule of Findings and Questioned Costs for further detail. Management's Corrective Action Plan in response to the finding appears on pages 27-28.

In our opinion, Crowe LLP prepared the audit report 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 black ink that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

**GARY PUBLIC TRANSPORTATION
CORPORATION**

FINANCIAL STATEMENTS

December 31, 2021

GARY PUBLIC TRANSPORTATION CORPORATION
Gary, Indiana

FINANCIAL STATEMENTS
December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gary Public Transportation Corporation
Gary, Indiana

Report on the Audit of the Financial Statements***Opinion***

We have audited the financial statements of the Gary Public Transportation Corporation ("Corporation"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

(Continued)

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying 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* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 and state 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 have also issued our report dated September 29, 2022 on our consideration of the Corporation'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 the Corporation'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 the Corporation's internal control over financial reporting and compliance.

Crowe LLP
Crowe LLP

Indianapolis, Indiana
September 29, 2022

GARY PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2021

The management discussion and analysis of the financial performance of Gary Public Transportation Corporation ("the Corporation" or "GPTC") provides an overall review of the Corporation's financial activities for the year ended December 31, 2021, with comparative information for 2020. The Corporation's management encourages readers to consider the information presented herein in conjunction with the financial statements to enhance their understanding of the Corporation's financial performance. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- Total 2021 assets were \$6.7 million, a decrease of \$.4 million, or 6%, from the 2020 assets of \$7.1 million. Net position was \$4.8 million at December 31, 2021.
- The 2021 change in net position was \$352,756, compared to \$16,190 for 2020.
 - Total 2021 operating and non-operating revenues were \$8.5 million, an increase of \$0.9 million, or 10.5%, from the 2020 revenues of \$7.6 million. Most of the increase was due to an increase in federal funding assistance from COVID-relief funding offsetting the decrease in operating revenues impacted by the pandemic.
 - Total 2021 operating and non-operating expenses were \$8.9 million, an increase of \$1.3 million, or 17.1%, from 2020 costs of \$7.6 million. Most of the increase was due to an increase in transportation and general and administrative expenses.

Overview of the Financial Statements

The financial section of this report is comprised of three components:

- Management Discussion & Analysis (this section)
- Financial statements with corresponding note disclosures, and
- Supplementary information

The financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

The statement of net position presents information on all the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of revenues, expenses, and changes in net position present information showing how the Corporations' net position changed during the year being reported. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The financial statements present the functions of the Corporation that are principally supported by operating and non-operating revenues/expenses. The Corporation has business-type activities; that is, functions that are intended to recover a portion of their costs through user fees and charges. These activities are reported in the financial statements as operating revenue that consist of passenger fares and advertising revenue.

(Continued)

GARY PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2021

Financial Analysis

Statement of Net Position: The Corporation's total assets remained consistent compared to the prior year. Liabilities remained consistent compared to prior year as there were no significant outstanding invoices payable at year end.

	2021	2020	Variance	% Variance
Assets				
Current and other assets	\$ 4.8	\$ 3.0	\$ 1.8	60.0%
Capital assets	1.9	2.5	(0.6)	-24.0%
Total assets	<u>6.7</u>	<u>5.5</u>	<u>1.2</u>	<u>21.8%</u>
Liabilities				
Other current liabilities	0.3	0.3	-	0.0%
Total liabilities	<u>0.3</u>	<u>0.3</u>	<u>-</u>	<u>0.0%</u>
Deferred Inflows of Resources				
From property taxes	1.6	-	1.6	100.0%
Net Position				
Net investment in capital assets	1.9	2.5	(0.6)	-24.0%
Unrestricted	2.9	2.7	0.2	7.4%
Total net position	<u>4.8</u>	<u>5.2</u>	<u>(0.4)</u>	<u>-7.7%</u>
Total liabilities, deferred inflows, and net position	<u>\$ 6.7</u>	<u>\$ 5.5</u>	<u>\$ 1.2</u>	<u>21.8%</u>

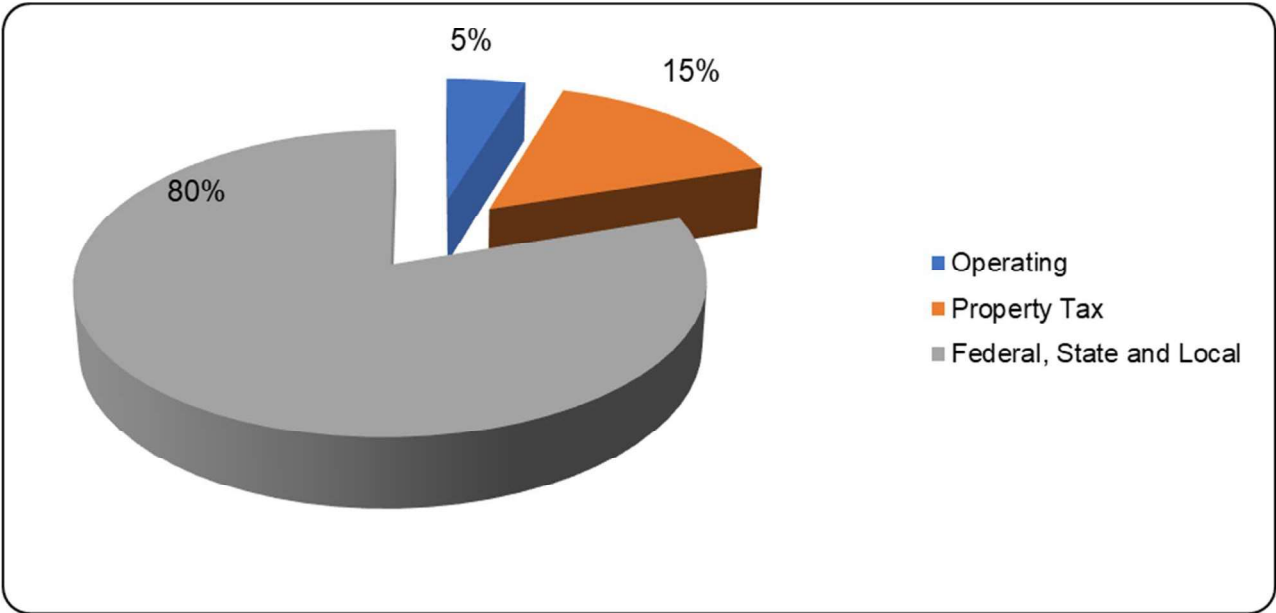
Changes in Net Position: For 2021 and 2020, revenue from GPTC activities was \$8.4 and \$7.6 million, respectively, with related 2021 and 2020 expenses of \$8.9 million and \$7.6 million. The increase in non-operating revenue was due to the increase in federal grant activity offsetting a decrease in operating revenues due to lower ridership. The increase in expenses was primarily due to transportation and general and administrative expenses.

	2021	2020	Variance	% Variance
Revenues				
Operating revenues	\$ 0.4	\$ 0.5	\$ (0.1)	-20.0%
Non-operating revenues	8.0	7.1	0.9	12.7%
Total revenues	<u>8.4</u>	<u>7.6</u>	<u>0.8</u>	<u>10.5%</u>
Expenses				
Operating expenses	8.9	7.6	1.3	17.1%
Total expenses	<u>8.9</u>	<u>7.6</u>	<u>1.3</u>	<u>17.1%</u>
Change in net position	<u>\$ (0.5)</u>	<u>\$ -</u>	<u>\$ (0.5)</u>	<u>-100%</u>

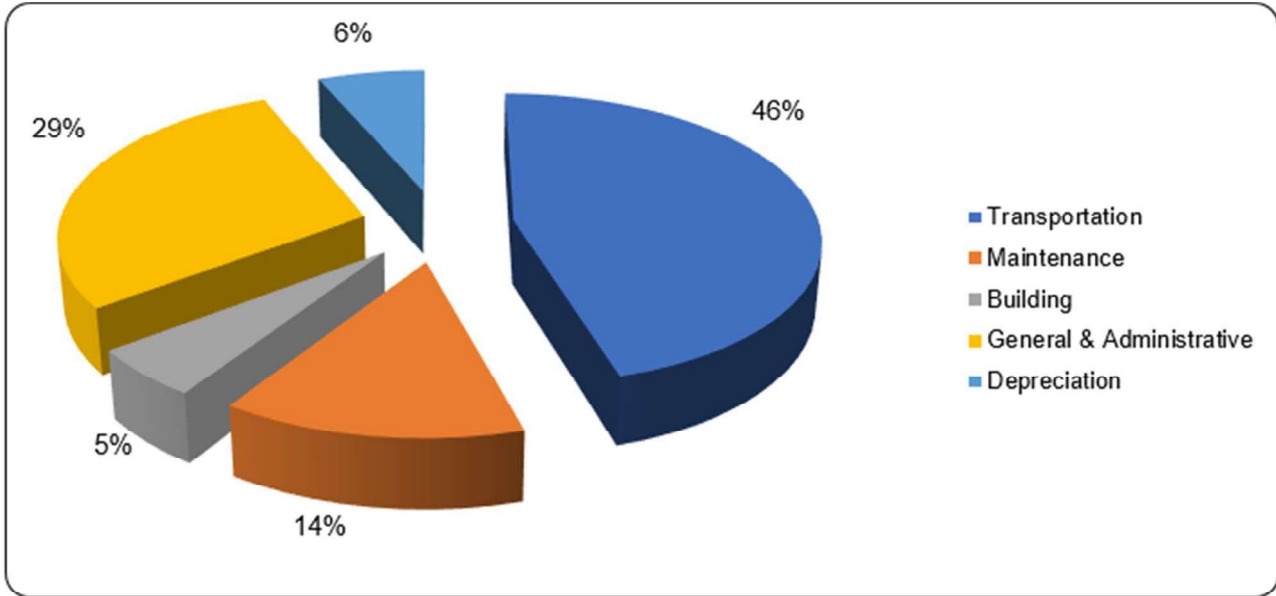
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GARY PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2021

2021 Revenues by Source: The following represents the primary funding sources for the Corporation (both operating and non-operating) for the year:



2021 Expenses by Function: The following represents a breakdown of total expenses (both operating and non-operating) for the year:



(Continued)

GARY PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2021

Capital Asset and Debt Administration

Capital assets

At the end of 2021 and 2020, the Corporation had invested \$1.9 million and \$2.5 million, respectively, net of accumulated depreciation. The total depreciation expense for 2021 and 2020 was \$0.6 million and \$0.7 million, respectively. Refer to the financial statement Note 3 for further information on capital assets.

Table 3: Capital Assets (in millions)				
	2021	2020	Variance	% Variance
Capital Assets				
Land	\$ 0.6	\$ 0.6	\$ -	0.0%
Building and improvements	14.7	14.7	-	0.0%
Revenue vehicles and equipment	11.2	11.9	(0.7)	-5.9%
Service Vehicles and equipment	3.2	2.5	0.7	28.0%
Office furniture and equipment	1.7	1.6	0.1	6.2%
Software	0.2	0.2	-	0.0%
Total assets	\$ 31.6	\$ 31.5	\$ 0.1	0.3%
Accumulated Depreciation	29.7	28.5	1.2	4.2%
Capital Assets, net	\$ 1.9	\$ 3.0	\$ (1.1)	-36.7%

Short-term Debt

The Corporation may issue property tax warrants on an annual basis to manage its cash flow requirements in anticipation of receiving tax revenues for the operating funds.

In January 2020, the Corporation received tax warrants in the amount of \$468,346 which was payable from the operating fund. The warrants were issued at a 2.91% interest rate and were repaid in December 2020 using property tax revenue and state operating assistance received during the year.

In 2021, the Corporation did not receive tax warrants.

(Continued)

GARY PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2021

Factors Bearing on the Corporation's Future

The most significant continuing financial challenges have been the complexity of sustaining operating revenue from local and state sources. The difficulty is due to lower than anticipated collection rates in property taxes of property owners, which has been affected by increased assessed valuations.

In addition to a full complement of federally funded capital equipment and infrastructure projects for Federal Fiscal Year 2021, GPTC is expected to receive grant revenue from the Congestion Mitigation and Air Quality (CMAQ) Improvement program in the following amounts for operating and capital expenses related to the Broadway corridor at a compensation rate of 80%:

FFY2022	\$446,036
FFY2023	\$446,036
FFY2024	\$446,036

CMAQ project funds will be used for operating assistance and rolling stock acquisition. GPTC's Broadway Rapid CMAQ operating grant is expected to begin in FFY2018 and expire in FFY2024. GPTC receives operating revenue of slightly over \$700,000 per year for general operating expenses and another \$700,000 per year for job access activities. GPTC will also supplement its Section 5307 capital program with Section 5339 funds for capital improvements, including \$230,000 related to the construction of a Bus Operator Relief Facility.

CMAQ project funds will also be used for Year 4 of the Lake Ridge Project. The period of performance for this round of funding is FFY2022 to FFY 2024.

FFY2022	\$140,625
FFY2023	\$140,625
FFY2024	\$140,625

Requests for Information

This financial report is designed to provide the Corporation's citizens, taxpayers, and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Finance Office at Gary Public Transportation Corporation, 100 West 4th Avenue, Third Floor, Gary, IN, 46402, (219) 885-7555.

GARY PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF NET POSITION
Year ended December 31, 2021

	<u>2021</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 1,869,439
Federal and state grants receivable	922,022
Property tax receivable	1,584,522
Accounts receivable	11,869
Materials and supplies Inventory	296,111
Prepaid expenses	<u>85,359</u>
Total current assets	4,769,322
Capital assets: (Note 3)	
Capital assets not being depreciated:	
Land	<u>631,331</u>
Total capital assets not being depreciated	631,331
Depreciable capital assets:	
Building and improvements	14,669,931
Revenue vehicles and equipment	11,206,542
Service vehicles and equipment	3,245,700
Office furniture and equipment	1,665,821
Software	186,674
Less: Accumulated depreciation	<u>(29,699,686)</u>
Total depreciable capital assets, net	1,274,982
Total capital assets, net	<u>1,906,313</u>
Total assets	<u>\$ 6,675,635</u>
LIABILITIES	
Liabilities:	
Accounts and other payables	<u>\$ 247,202</u>
DEFERRED INFLOWS OF RESOURCES	
From property taxes (Note 1)	<u>1,584,522</u>
Net position	
Net investment in capital assets	1,906,313
Unrestricted net position	<u>2,937,598</u>
Total net position	<u>4,843,911</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 6,675,635</u>

See accompanying notes to financial statements.

GARY PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31, 2021

	<u>2021</u>
Operating revenues	
Passenger	\$ 387,865
Advertising	120,624
Total operating revenues	<u>508,489</u>
 Operating expenses	
Transportation	4,046,079
Maintenance	1,224,668
Building	483,946
General and administrative	2,557,749
Depreciation and amortization	576,805
Total operating expenses	<u>8,889,247</u>
 Operating loss	 (8,380,758)
 Nonoperating revenues (expenses)	
FTA federal grants	5,602,870
State operating assistance	783,567
Property tax	1,272,520
Local operating tax	90,762
Other income	278,283
Total nonoperating revenues (expenses)	<u>8,028,002</u>
 Net change before capital contributions	 (352,756)
 Capital contributions	 <u>-</u>
 Change in net position	 (352,756)
 Total net position, beginning of year	 <u>5,196,667</u>
 Total net position, end of year	 <u>\$ 4,843,911</u>

See accompanying notes to financial statements.

GARY PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2021

	<u>2021</u>
Cash flows from operating activities	
Cash received from fares	\$ 414,538
Cash received from advertising	120,624
Payments to employees	(4,743,031)
Payments to suppliers and vendors	(3,642,944)
Net cash from operating activities	<u>(7,850,813)</u>
Cash flows from noncapital financing activities	
Receipts of local government assessments and taxes	2,146,849
Other income	278,283
Receipts of federal and state government grants and reimbursements	5,646,743
Net cash from noncapital financing activities	<u>8,071,875</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(6,748)
Net cash from capital and related financing activities	<u>(6,748)</u>
Net change in cash and cash equivalents	214,314
Cash and cash equivalents, beginning of year	<u>1,655,125</u>
Cash and cash equivalents, end of year	<u>\$ 1,869,439</u>
Reconciliation of operating income to net cash from operating activities	
Operating loss	\$ (8,380,758)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation and amortization	576,805
(Increase) decrease due to changes in:	
Accounts receivable	26,673
Materials and supplies inventory	(80,214)
Prepaid expense	1,319
Accounts payable	5,362
Net cash from operating activities	<u>\$ (7,850,813)</u>

See accompanying notes to financial statements.

GARY PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Gary Public Transportation Corporation ("GPTC" or the "Corporation") is a municipal corporation formed in 1975 under the provisions of IC 19-5-2-10. GPTC was formed for the purpose of providing and maintaining continuing public transportation through a publicly owned urban mass transportation system. GPTC's mission is to become an efficient transit system capable of meeting the employment, social and medical needs of the citizens of Gary, Indiana as well as Northwest Indiana, while stimulating economic development within the City of Gary.

Reporting Entity: The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB). GASB Statement No. 61 requires that financial statements of the reporting entity include all the organization's activities, functions, and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. Based upon the application of these criteria, no entities have been identified as component units for the purpose of defining the Corporation's reporting entity.

Budgetary Information: Annual budgets are adopted on the cash basis of accounting, which is not consistent with U.S. GAAP. All annual appropriations lapse at calendar year end. Prior to the first required publication, the Controller of the Corporation submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised, and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution, approves the budget for the next year. Copies of the budget resolution and the advertisements for funds for which property taxes are levied are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the Controller receives approval of the Indiana Department of Local Government Finance. The Corporation's management cannot transfer budgeted appropriations between classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund.

Basis of Accounting and Accounting Presentation: This summary of significant accounting policies is presented to assist in understanding GPTC's financial statements. The financial statements and accompanying notes are representations of GPTC's management who is responsible for their integrity and objectivity.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Proprietary Fund Type: GPTC operates as an Enterprise Fund, a type of Proprietary Fund. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. GPTC's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

(Continued)

GARY PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Operating and Non-operating Revenues and Expenses: The principal operating revenue of GPTC is passenger fares. GPTC also recognized as operating revenue the fees collected from advertisements of GPTC's property and miscellaneous operating revenues.

Operating expenses for GPTC include the costs of operating the transit system, administrative expenses, and depreciation on capital assets.

Non-operating revenues primarily include grants and tax revenue from federal, state, and local governments. On an accrual basis, revenue from grants is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements may include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and expenditure requirements, in which the resources are provided to the GPTC on a reimbursement basis.

It is GPTC's policy to apply restricted resources first when an expense is incurred for which both with restricted and unrestricted net position are available.

Property Taxes: Property tax revenues are recognized in the year in which they are levied. Property taxes levied are collected by the County Treasurer and are distributed to the Corporation. The Corporation collects taxes after the due dates, usually within 45-90 days. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates are based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxes levied in one year become due and payable in two installments the following year. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Property Tax Receivable: Property taxes for the 2021 tax levy were attached as an enforceable lien on properties as of March 1, 2021; these taxes were levied in January 2021, by passage of a tax ordinance. Tax bills were prepared by Lake County and were issued in April 2021 and October 2021 and payable in May 2021 and December 2021.

Property taxes levied are collected by the Lake County Treasurer and are scheduled to be distributed to the GPTC in January subsequent to year end; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's lien date and assessed valuations are adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). As of December 31, 2021, GPTC had an outstanding property tax receivable balance of \$1,584,522. There is an offsetting deferred inflow of resources relates to the timing of activity.

Fare Box and Passenger Revenues: Revenues are recognized at the time services are performed.

(Continued)

GARY PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities when purchased of three months or less. Restricted cash had represented funds remaining from insurance proceeds received during the previous years from the disposition of an FTA funded service vehicle. These funds were utilized for the restricted purpose during the year. No restricted cash balance remains at year end.

Grants and Accounts Receivable: Grants receivable are typically based on cost reimbursement agreements. Accounts receivable are based on operating activities. No allowance for bad debts has been established because management considers all material receivables to be collectible.

Materials and Supplies Inventory: Inventory consists of parts and supplies and is valued at the lower of cost (first-in, first-out method) or market.

Capital Assets: Capital assets are stated at cost and are defined as assets which (1) have a useful life of more than one year and a unit cost of more than \$5,000 (2) have a unit cost of \$5,000 or less, but which are part of a network or system conversion or (3) have a unit cost of \$1,000 and were purchased with grant money. The cost of maintenance and repairs is charged to operations as incurred. Depreciation is calculated under the straight-line method at amounts based on the respective estimated useful lives of major asset classifications, as follows:

Buildings and improvements	20 years
Revenue vehicles and equipment	7 - 12 years
Service vehicles and equipment	7 - 10 years
Office furniture and equipment	5 - 10 years
Software	5 years

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service and are earned the year before they can be used. Unused vacation hours do not carry over unless specifically approved, but payments for unused vacation are due at the end of the vacation year for administrative staff. At December 31, 2021, the amount accruable for administrative staff was not deemed to be individually material and is included in accounts and other payables.

Self-Insurance: The Corporation has a self-funded workmen compensation insurance, dental and vision plan. As of December 31, 2021, there were no material accrued amounts for workers' compensation, dental or vision pending claims.

(Continued)

GARY PUBLIC TRANSPORTATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position: The three components of net position include:

Net Investment in Capital Assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted for capital projects - This consists of assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. There were no restricted funds for capital projects at year end.

Unrestricted - This consists of assets that do not meet the definition of "restricted" or "Net investment in capital assets."

Adoption of New Accounting Pronouncements: For the year ended December 31, 2021, the Corporation adopted the following accounting pronouncements.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, was adopted with no impact.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, was adopted with no impact.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2021, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2021.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Corporation maintains cash deposits with area financial institutions. A summary of these deposits at December 31, 2021, is as follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Cash deposits:		
Insured by FDIC	\$ 524,642	\$ 524,642
Insured by Indiana Public Deposits Insurance Fund	<u>1,345,573</u>	<u>1,627,856</u>
	<u>\$ 1,869,439</u>	<u>\$ 2,151,723</u>

The Public Deposit Insurance Fund (PDIF) was created by the Acts of 1937 to protect the public funds of the state and its political subdivisions deposited in approved financial institutions. The PDIF insures those public funds deposited in approved financial institutions which exceed the limits of coverage provided by any federal deposit insurance. GPTC has funds deposited in PDIF approved financial institutions.

(Continued)

GARY PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 3 - CAPITAL ASSETS, NET

A summary of changes in capital assets is as follows:

	<u>1/1/2021</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>12/31/2021</u>
Capital assets not being depreciated:					
Land	\$ 631,331	-	-	-	\$ 631,331
Total capital assets not being depreciated	631,331	-	-	-	631,331
Capital assets being depreciated:					
Buildings and improvements	14,669,931	-	-	-	14,669,931
Revenue vehicles and equipment	11,896,293	-	-	-	11,896,293
Service vehicles and equipment	2,549,199	6,750	-	-	2,555,949
Office furniture and equipment	1,665,821	-	-	-	1,665,821
Software	186,674	-	-	-	186,674
Total capital assets being depreciated	30,967,918	6,750	-	-	30,974,668
Less accumulated depreciation:					
Buildings and improvements	(14,274,477)	(62,746)	-	-	(14,337,223)
Revenue vehicles and equipment	(10,749,459)	(382,422)	-	-	(11,131,881)
Service vehicles and equipment	(2,448,814)	(55,166)	-	-	(2,503,980)
Office furniture and equipment	(1,494,280)	(48,741)	-	-	(1,543,021)
Software	(155,849)	(27,732)	-	-	(183,581)
Total accumulated depreciation	(29,122,879)	(576,807)	-	-	(29,699,686)
Total capital assets being depreciated, net	1,845,039	(570,057)	-	-	1,274,982
Total capital assets, net	<u>\$ 2,476,370</u>	<u>\$ (570,057)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,906,313</u>

NOTE 4 - DEFINED CONTRIBUTION PENSION PLAN

The Corporation sponsors a defined contribution pension plan, covering all eligible salaried and hourly employees, known as the Gary Public Transportation Corporation Employee's Pension Plan and Trust. Latitude is the third-party administrator (the Plan Administrator), and Capital Bank and Trust is the custodian of the plan assets. The plan is part of an agreement with Division 517 of the Amalgamated Transit Union and the plan may be amended by mutual agreement of the parties, subject to approval by the Corporation. Under the terms of the plan, the Corporation is required to make monthly contributions, which vary depending on the length of service of employees as follows:

<u>Years of Service</u>	<u>Monthly Contribution</u>
Less than 10	\$ 30
10 - 15	40
15 - 19	45
20 - 24	50
25 or more	60

(Continued)

GARY PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 4 - DEFINED CONTRIBUTION PENSION PLAN (Continued)

Employees become vested after five years of continuous service with GPTC. Additionally, the Corporation contributes fifteen cents per payroll hour for full time employees with at least ten years of vested service. The Corporation's employer contributions were approximately \$25,000 for the year ended December 31, 2021, and employee contributions were approximately \$31,000.

The plan administrator invests the plan's assets in several types of mutual funds. At December 31, 2021, the investments of the plan, at fair value, amounted to approximately \$1,683,000. These assets are excluded from these financial statements. The plan is not audited.

NOTE 5 - FEDERAL, STATE AND LOCAL NON-OPERATING ASSISTANCE

Reduced fare revenue subsidies received from the State of Indiana were \$783,567 for the year ended December 31, 2021, were used for discounted services provided to the elderly, disabled, or student riders.

Property tax revenue for 2021 was from a Lake County property tax levy with distributions to GPTC of \$1,272,520 for operating assistance.

GPTC receives federal funds from the Department of Transportation (via FTA) under the Urbanized Area Formula grant. The grant is cost reimbursement based on projects and budgets preapproved. Once funds have been spent on preapproved projects, GPTC requests reimbursement. The FTA reimburses GPTC its proportionate share of the monies spent while GPTC is responsible for a local match.

NOTE 6 - OPERATING LEASES

The Corporation leases tires and related services for its fleet of buses through Bridgestone. Amounts due on the lease are determined on an annual basis relative to actual usage. The agreement expires April 30, 2023, with a one-year option to renew. Expenses related to this lease were approximately \$36,532 in 2021.

NOTE 7 - RISK MANAGEMENT – CONTINGENCIES AND COMMITMENTS

Contingencies: Various claims and lawsuits arising from the normal course of business are pending against GPTC. The nature of GPTC's operations sometimes subjects the Corporation to litigation. General Counsel for GPTC is of the opinion that ultimate settlement of such claims in excess of insurance coverage will not result in a material adverse effect on GPTC's financial statements as of December 31, 2021. The Corporation did not have settlements in excess of insurance coverage during the current or preceding years ending December 31, 2021, 2020, or 2019. No liability is recorded as of December 31, 2021.

GPTC maintains coverage for general liability, property and casualty, employee accidents, environmental, business interruption, terrorism, and automotive liability losses arising from automotive liability, property, property-related business interruption, terrorism, employment-related suits, including discrimination and sexual harassment, and management liability of board members, directors, and officers of GPTC.

Also included are risks of loss associated with providing insured and self-insured health, dental, and life insurance benefits to employees and retirees. Premiums have been recorded as expenses in the appropriate funds. GPTC provides health insurance benefits to employees through two fully insured health maintenance organizations PPO plan.

(Continued)

GARY PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 7 - RISK MANAGEMENT – CONTINGENCIES AND COMMITMENTS (Continued)

GPTC provides dental insurance benefits through two fully insured dental maintenance organizations and a self-insured dental indemnity plan. GPTC does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. No material liabilities associated with the dental indemnity plan exist at December 31, 2021. Lastly, GPTC covers the cost of employee life insurance policies for both active and retired employees. Life insurance coverage limits are \$15,000 for active union employees and \$7,000 for retired employees, and GPTC is obligated to cover the cost of the associated premiums. For active nonunion employees, the coverage limit is based on salary.

Commitments: GPTC has reported that the Corporation has no material contractual commitments to fulfill as of December 31, 2021.

NOTE 8 - OTHER MATTERS

GPTC uses office space owned by the City of Gary. The use of the space is part of an operating agreement in exchange for GPTC services that includes collecting parking lot revenue and rent payments from the lessees at the Metro Center and making payments based on revenue collections to the various Metro Center vendors for utilities, security, janitorial and maintenance, and other related expenses. Any expense amounts in excess of the revenue collected from the Metro Center vendors are the responsibility of the City of Gary.

SUPPLEMENTARY INFORMATION

GARY PUBLIC TRANSPORTATION CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended December 31, 2021

<u>Federal Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditure</u>
Department of Transportation			
Federal Transportation Administration			
Direct Awards:			
Federal Transit Cluster:			
Federal Transit Formula Grants	20.507	IN-90-X511	\$ 24,921
Federal Transit Formula Grants	20.507	IN-90-X585	68,152
Federal Transit Formula Grants	20.507	IN-90-X652	1,028,745
Federal Transit Formula Grants	20.507	IN-95-X016	344,219
Federal Transit Formula Grants	20.507	IN-2016-036	886,848
Federal Transit Formula Grants	20.507	IN-2019-028	378,510
COVID-19 - Federal Transit Formula Grants	20.507	IN-2020-015	2,791,475
Federal Transit Formula Grants	20.507	IN-2021-024	<u>80,000</u>
Total Federal Transit Cluster			<u>5,602,870</u>
 Total Expenditures of Federal Awards			 <u>\$ 5,602,870</u>

Notes to the SEFA

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Corporation under programs of the federal government for the year ended December 31, 2021. 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 the Corporation, it is not intended to and does not present the statement of net position, statement of revenues, expenses and changes in net assets, or cash flows of the Corporation.

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

Other Information

The Corporation did not have any sub-recipient activity or noncash activity during the year.

INDEPENDENT AUDITOR'S 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

Board of Directors
Gary Public Transportation Corporation
Gary, Indiana

We have audited, in accordance with the 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 the Gary Public Transportation Corporation ("Corporation") as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 29, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing 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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

Our consideration of internal control 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 were not 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 2021-001 that we consider to be a significant deficiency.

(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 financial statements. 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*

Gary Public Transportation Corporation's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Corporation's response to the findings identified in our audit and described in the accompanying *schedule of findings and questioned costs*. The Corporation's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Crowe LLP
Crowe LLP

Indianapolis, Indiana
September 29, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Gary Public Transportation Corporation
Gary, Indiana

Report on Compliance for Major Federal Program***Opinion on Major Federal Program***

We have audited the Gary Public Transportation Corporation ("Corporation") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on Corporation's major federal program for the year ended December 31, 2021. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Corporation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Corporation's federal programs.

(Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Corporation's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

(Continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Crowe LLP
Crowe LLP

Indianapolis, Indiana
September 29, 2022

GARY PUBLIC TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes _____ No

Significant deficiencies identified?

X Yes _____ None Reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal Control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiencies identified?

_____ Yes X None Reported

Type of auditor's report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit Cluster – Federal Transit Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

GARY PUBLIC TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2021

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2021-001 - Controls Over Financial Reporting (Significant Deficiency)

Criteria: Internal controls over financial reporting are a key component of an organization's control environment. Entities should have internal controls over financial reporting including policies and procedures surrounding the general journal entry process.

Condition: During our audit, we concluded that management did not have effective segregation of duties surrounding the manual journal entry process. In certain instances, manual entries were prepared and posted in the system by the same user login.

Context: During the testing of manual journal entries posted during the year under audit, we noted instances where entries were prepared and posted by the same user within the general ledger system resulting in a lack of documented segregation of duties. General journal entries during the year predominantly related to posting cash receipts and bank transfers, as well as year end accruals. Management did have evidence of review of the source documents supporting the general journal entry.

Effect: Improper segregation of duties surrounding the journal entry process could result in unauthorized Transactions or errant transactions being recorded to the financial reporting system where management may not be able to detect such activity timely.

Cause: Due to turnover within the accounting department during the year, there was not adequate staff resources to maintain proper segregation of duties. Management communicated that they had hired a temporary worker to prepare journal entries to allow for review by a finance team member. However, management communicated that the temporary worker did not have a unique login to show proper segregation of duties within the general ledger system, The temporary worker logged into the system using the reviewer's login. Therefore, there was no general ledger system evidence of unique preparer and reviewer.

Recommendation: We recommend, to the extent possible by the system, that the access to prepare and post journal entries be restricted so that personnel can only do one or the other, but not both. In instances where proper segregation of duties cannot be maintained, we recommend management formally document a secondary approval of entries posted by someone other than the preparer. In instances where temporary workers are hired, we recommend a unique login be created for the individual.

Views of responsible officials and planned corrective actions: Management agrees with the finding and has prepared a corrective action plan.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



GARY PUBLIC TRANSPORTATION CORP



Administration Facility
100 West 4th Avenue
(219) 885-7555

Transportation/Maintenance
2101 West 35th Avenue
(219) 884-6100

Finding 2021-001 - Controls Over Financial Reporting:

Internal controls over financial reporting are a key component of an organization's control environment. Entities should have internal controls over financial reporting including policies and procedures surrounding the general journal entry process. During our audit, we concluded that management did not have effective segregation of duties surrounding the manual journal entry process. In certain instances, manual entries were prepared and posted in the system by the same user login. During the testing of manual journal entries posted during the year under audit, we noted instances where entries were prepared and posted by the same user within the general ledger system resulting in a lack of documented segregation of duties. General journal entries during the year predominantly related to posting cash receipts and bank transfers, as well as year end accruals. Management did have evidence of review of the source documents supporting the general journal entry. Improper segregation of duties surrounding the journal entry process could result in unauthorized transactions or errant transactions being recorded to the financial reporting system where management may not be able to detect such activity timely.

Views of Responsible Officials and Planned Corrective Actions:

Whereas, staffing was a contributor to the above finding; management believes that the appropriate segregation of duties could occur through the following procedures, training other Finance team members to create and enter journal entries and require another team member to review and posts journal entries. This would stringently reduce the possibilities of improper segregation of duties and the risks of unwanted or unsubstantiated activity being posted without detection in a timely fashion. The finance director has begun working with the software vendor to utilize security mechanisms within the financial package to limit self-posting of created journal entries. The Finance team has been apprised of the finding; and staff is being trained how to create and enter journal entries into the general ledger. After entering a journal entry, staff must inform either the accountant or finance director of the entry for review and posting. This should be done whether or not the software issues a notification to the accountant or finance director. By informing the accountant and/or finance director, this prevents a 'hanging' or unposted entry which could get reposted in error. The accountant and finance director shall review and post each other's created and entered journal entries. Like above, they must inform the other of the impending entry for review and posting. Furthermore, workflow models (SOP's) of Finance

team members' responsibilities shall be developed to assist in monitoring the timing of cash receipts postings, expense postings and other journal entries so that they are posted in a timely fashion after review.

Contact Information:

For more information, questions, and/or concerns, please contact Freddy McMillon, Director of Finance at Gary Public Transportation Corporation at (219)885-7555, ext. 201.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED

Finding 2020-001 - Controls Over Financial Reporting:

Internal controls over financial reporting are a key component of an organization's control environment. Entities should have internal controls over financial reporting including policies and procedures surrounding the general journal entry process. During our audit, we concluded that management did not have effective segregation of duties surrounding the manual journal entry process. In certain instances, manual entries were prepared and posted in the system by the same user. During the testing of manual journal entries posted during the year under audit, we noted instances where entries were prepared and posted by the same user within the system resulting in a lack of segregation of duties within the journal entry process. Improper segregation of duties surrounding the journal entry process could result in authorized transactions being recorded to the financial reporting system where management would not be able to detect such activity timely.

Recommendation: We recommend that management implement a period end closing checklist and prepare GAAP financial statements periodically and reinforce the use of standard protocol for periodic general ledger closing, account reconciliation process, monthly journal entries, in order to prepare accurate and timely internal financial statements and ensure timely backups are performed

Status: Not resolved. See Finding 2021-001.