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January 26, 2009

Board of Directors
South Bend Public Transportation Corporation
City of South Bend
901 East Northside Boulevard
South Bend, Indiana 46624

We have reviewed the audit of the South Bend Public Transportation Corporation performed by Crowe Horwath, LLC, Independent Public Accountants, for the period of January 1, 2007 to December 31, 2007. In our opinion, the audit was made in accordance with the guidelines established by the State Board of Accounts, and the financial statements included in the report present fairly the financial condition of the South Bend Public Transportation Corporation, as of December 31, 2007, and the results of its operations for the year then ended, on the basis of accounting described in the report.

The Independent Public Accounts' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION

ANNUAL REPORT

December 31, 2007 and 2006

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
South Bend, Indiana

ANNUAL REPORT
December 31, 2007 and 2006

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Crowe

Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

Board of Directors
South Bend Public Transportation Corporation
South Bend, Indiana

We have audited the accompanying statements of net assets of South Bend Public Transportation Corporation (the Corporation) as of December 31, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows, for the years then ended, which collectively comprise the Corporation's basic financial statements. These basic financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 11, 2008 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The Management Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying schedule of revenues, expenses, and nonoperating assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Corporation. The information in these schedules has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
August 11, 2008

As management of the South Bend Public Transportation Corporation (the "Corporation"), we offer the following discussion and analysis as insight into the financial performance of the Corporation for the fiscal years ended December 31, 2007 and 2006. The Corporation's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Corporation's financial activity, and (c) identify changes in the Corporation's financial position (its ability to address the next and subsequent year challenges).

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the basic financial statements, and the notes to the basic financial statements.

The South Bend Public Transportation Corporation is a municipal corporation established under Indiana Code 36-9-4-11 which provides transportation services for the citizens of South Bend and Mishawaka, Indiana. The Corporation is governed by a nine member Board of Trustees appointed for a four year term by the Mayor of South Bend (3), the Mayor of Mishawaka (1), the South Bend Common Council (4), and the Mishawaka Common Council (1).

With a fleet of fifty-two (52) buses and four (4) trolleys and a work force of one hundred twenty-six (126) employees, the Corporation operates an extensive system of bus routes that serve the twin cities six days a week. The Corporation services approximately 68 square miles with a population of more than 155,000.

In addition to an extensive fixed route system, the Corporation offers paratransit (ACCESS) services to individuals unable to use the fixed route service. The ACCESS service consists of eight (8) vehicles providing curb-to-curb service six days a week. The Corporation actively participates in Transit Watch and Safe Place programs dedicated to providing safety and information to those in need.

FINANCIAL HIGHLIGHTS

During fiscal year 2007 the Corporation's net assets decreased by $1,098,239. This change represents a 3% decrease over the preceding year. This decrease is due to an increase in labor and service expense during fiscal year 2007. The Corporation received $1,670,122 of capital contributions from the Federal Transit Administration. The majority of this receipt was used for the Pre-Construction expenses for the Corporation's new operations/maintenance and administrative facility.

(Continued)

During fiscal year 2006 the Corporation's net assets decreased by $1,030,095. This change represents a 3% decrease over the preceding year. The decline was attributable to a reduction in capital contributions during fiscal year 2006. The Corporation received $745,241 of capital contributions from the Federal Transit Administration for use to purchase new paratransit vehicles and to fund other capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report essentially consists of five parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, supplementary information, and reports on compliance and internal controls over financial reporting. The discussion and analysis is intended to serve as an introduction to the Corporation's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

The Corporation's 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 government units. 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 Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Corporation are included in the Statement of Net Assets.

The financial statements provide both long and short-term information about the Corporation's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Basic financial statements. The basic 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.

- ***Statement of net assets.*** The statement of net assets presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which indicates an improved financial position.

(Continued)

- ***Statement of revenues, expenses, and changes in net assets.*** The statement of revenues, expenses, and changes in net assets presents information showing how the Corporation's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave). Expenses are subtracted from revenues to get the change in net assets.

- ***Statement of cash flows.*** The statement of cash flows is used to categorize net cash provided or used during a period as either operating, investing, or financing activities and reconciles beginning and ending cash and cash equivalents.

Notes to the financial statements. The notes are a required part of the basic financial statements that provide necessary information for the understanding of the Corporation's financial report. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other information. The Corporation has provided more detailed information regarding certain facets of the financial statements in the "Supplemental Schedules" section.

FINANCIAL ANALYSIS

Net assets. Net assets may serve, over time, as a useful indicator of a corporation's financial position. At December 31, 2007, the Corporation's total assets reached $31,807,101. This represents a decrease of $306,677 or approximately 1% over the prior year. Total liabilities amounted to $1,081,060. This represents a increase of $791,562 or approximately 273% over the prior year. Consequently net assets reached $30,726,041. This represents a decrease of $1,098,239 or approximately 3% (see Table 1). The decrease is primarily attributable to increases in depreciation, labor expenses and service expenses for 2007.

At December 31, 2006, the Corporation's total assets reached $32,113,778. This represents a decrease of $1,092,169 or approximately 3% over the prior year. Total liabilities amounted to $289,498. This represents a decrease of $62,074 or approximately 18% over the prior year. Consequently net assets reached $31,824,280. This represents a decrease of $1,030,095 or approximately 3% (see Table 1). The decrease is primarily attributable to increases in depreciation, labor expenses and materials and supplies expenses for 2006.

(Continued)

Change in net assets. The change in net assets at December 31, 2007, was a decrease of $1,098,239 which represents a 3% decrease over the prior year. The Corporation's total operating revenues decreased by $18,090 or approximately 1%. The Corporation's total non-operating revenues increased by $3,737 over the preceding fiscal year. This increase represents approximately 0%. Total operating expenses increased by $978,672 or approximately 9%. The changes in net assets are detailed in Table 2.

The change in net assets at December 31, 2006, was a decrease of $1,030,095 which represents a 3% decrease over the prior year. The Corporation's total operating revenues increased by $150,997 or approximately 10%. The Corporation's total non-operating revenues increased by $479,376 over the preceding fiscal year. This increase represents approximately 6%. Total operating expenses increased by $704,077 or approximately 7%. The changes in net assets are detailed in Table 2.

- *Revenues:* During 2007, operating revenues, principally fare revenues, decreased by 1%. This is attributed to a decrease in the sale of the Corporation's monthly pass by locally funded agencies. Non-operating revenues increased by $3,737 from the prior fiscal year. This increase is primarily attributable to an increase in investment interest.

- During 2006, operating revenues, principally fare revenues, increased by 10%. This increase is attributed to expanded services and a substantial increase in the demand for public transportation which is likely a result of higher fuel prices during the same time period. Non-operating revenues increased by 6% from the prior fiscal year. This increase is primarily attributable to a increase in investment interest and local government assessments and taxes.

- *Expenses:* During 2007, total operating expenses increased by 9% over the prior period. Excluding depreciation, operating expenses rose by 9% which management primarily attributes to the additional costs associated with expanded services and those required to meet the increased demand of public transportation during the same time period. Materials and supplies rose by approximately 11% principally due to rising fuel prices.

(Continued)

During 2006, total operating expenses increased by 7% over the prior period. Excluding depreciation, operating expenses rose by 7% which management primarily attributes to the additional costs associated with expanded services and those required to meet the increased demand of public transportation during the same time period. Materials and supplies rose by approximately 16% principally due to rising fuel prices. The 2% increase in depreciation expense corresponds with the amount of projects completed and capitalized within the last few years.

- *Capital contributions:* During fiscal year 2007 capital contributions increase by $924,881 or 124%. This increase was primarily attributable pre-construction cost for the design of the Corporation's new operating/maintenance/administrative facility.

- During fiscal year 2006 capital contributions decreased by $4,215,493 or 85%. This decrease was primarily attributable to a decrease in the dollar value and number of capital projects completed and capitalized during the 2006 fiscal year. Several paratransit vehicles were purchased during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. As of December 31, 2007, the Corporation had invested $18,759,017 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents a decrease (including additions and disposals) of $1,035,247 or 5% (see Table 3). This decrease is primarily attributed to the substantial increase in accumulated depreciation due to the large number of capital projects completed in the last five years, specifically the annual depreciation expense associated with a newer bus fleet. Consequently capital asset additions during 2007 were less than related disposals and the substantial increase in accumulated depreciation.

As of December 31, 2006, the Corporation had invested $19,794,264 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents a decrease (including additions and disposals) of $1,504,322 or 7 % (see Table 3). This decrease is primarily attributed to the substantial increase in accumulated depreciation due to the large number of capital projects completed in the last five years, specifically the annual depreciation expense associated with a newer bus fleet. Consequently capital asset additions during 2006 were less than related disposals and the substantial increase in accumulated depreciation.

Long-term debt. As of December 31, 2007 and 2006, the Corporation had no bonded debt outstanding and has not issued any in the past.

(Continued)

CURRENTLY KNOWN FACTS

Other than the uncertainty of general economic indicators on the Corporation, its funding affiliates, and its customers, there are no significant facts, decisions or conditions that are expected that management believes will have a material impact on the financial position or results of operations. The Corporation anticipates increase in both total revenues and total expenditures which have been incorporated into the fiscal year 2008 budget. Through marketing, operations, and other community efforts, the Corporation anticipates increased ridership during the fiscal year 2008.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, South Bend Public Transportation Corporation, 901 East Northside Boulevard, South Bend, Indiana 46617.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NET ASSETS
TABLE 1
Years ended December 31, 2007, 2006 and 2005

	2007	2006	Change 2007 vs. 2006	2005	Change 2006 vs. 2005
Assets:					
Current assets	$ 8,302,879	$ 7,174,309	16%	$ 6,362,156	13%
Other assets	4,745,205	5,145,205	-8%	5,545,205	-7%
Capital assets (net)	18,759,017	19,794,264	-5%	21,298,586	-7%
Total assets	$ 31,807,101	$ 32,113,778	-1%	$ 33,205,947	-3%
Liabilities:					
Current liabilities	$ 1,081,060	$ 289,498	273%	$ 351,572	-18%
Other long-term liabilities	-	-	-	-	-
Total liabilities	$ 1,081,060	$ 289,498	273%	$ 351,572	-18%
Net assets:					
Invested in capital assets net of related debt	$ 18,759,017	$ 19,794,264	-5%	$ 21,298,586	-7%
Unrestricted	11,967,024	12,030,016	-1%	11,555,789	4%
Total net assets	$ 30,726,041	$ 31,824,280	-3%	$ 32,854,375	-3%

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
CHANGES IN NET ASSETS
TABLE 2
Years ended December 31, 2007, 2006 and 2005

	2007	2006	Percentage Change 2007 vs. 2006	2005	Percentage Change 2006 vs. 2005
Operating revenues:					
Passenger fares	$ 1,347,746	$ 1,373,706	-2%	$ 1,204,218	14%
Special services	44,728	29,092	54%	29,991	-3%
Advertising	60,000	60,000	0%	60,000	0%
Miscellaneous	148,000	155,766	-5%	173,358	-10%
Total operating revenues	1,600,474	1,618,564	-	1,467,567	-
Operating expenses:					
Labor	4,964,930	4,140,135	20%	3,941,614	5%
Fringe benefits	1,402,427	1,901,720	-26%	1,849,317	3%
Services	1,530,806	930,487	65%	682,460	36%
Materials and supplies	1,586,610	1,424,017	11%	1,229,442	16%
Utilities	196,744	174,490	13%	201,221	-13%
Insurance	338,195	449,879	-25%	459,073	-2%
Dues and subscriptions	27,168	22,657	20%	20,617	10%
Travel and meetings	20,161	30,535	-34%	40,403	-24%
Advertising and promotion	36,367	61,526	-41%	45,575	35%
Depreciation	2,261,505	2,250,805	0%	2,212,452	2%
Other	10	-	0%	-	0%
Total operating expenses	12,364,923	11,386,251	9%	10,682,174	7%
Operating loss	(10,764,449)	(9,767,687)	10%	(9,214,607)	6%
Net nonoperating revenues (expenses):					
Investment interest	204,585	183,355	12%	121,288	51%
Local government assessments and taxes	4,304,918	4,010,144	7%	4,108,847	-2%
Federal grants and reimbursements	1,284,836	1,364,379	-6%	1,302,214	5%
State operating grants	2,201,749	2,434,473	-10%	1,980,626	23%
Other	-	-	0%	-	0%
Total nonoperating revenues (expenses)	7,996,088	7,992,351	0%	7,512,975	6%
Net loss before capital contributions	(2,768,361)	(1,775,336)	56%	(1,701,632)	4%
Capital contributions	1,670,122	745,241	124%	4,960,734	-85%
Change in net assets	(1,098,239)	(1,030,095)	7%	3,259,102	-132%
Net assets, beginning of year	31,824,280	32,854,375	-3%	29,595,273	11%
Net assets, end of year	$ 30,726,041	$ 31,824,280	-3%	$ 29,595,273	8%

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
CAPITAL ASSETS AT YEAR END
(NET OF DEPRECIATION)
TABLE 3
Years ended December 31, 2007, 2006 and 2005

	2007	2006	Percentage Change 2007 vs. 2006	2005	Percentage Change 2006 vs. 2005
Land	$ 3,330,815	$ 3,143,177	6%	$ 3,128,852	0%
Construction in progress - new building	702,671	-	0%	-	0%
Buildings and structures	4,616,187	4,959,563	-7%	5,311,243	-7%
Revenue equipment	9,803,168	11,382,087	-14%	12,576,101	-9%
Other service equipment	150,590	114,567	31%	74,671	53%
Shop and garage equipment	95,824	126,641	-24%	114,523	11%
Office equipment	59,762	68,229	-12%	93,196	-27%
Leasehold improvements	-	-	0%	-	0%
Total capital assets	$ 18,759,017	$ 19,794,264	-5%	$ 21,298,586	-7%

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
STATEMENTS OF NET ASSETS
December 31, 2007 and 2006

	2007	2006
ASSETS		
Current assets		
Cash (Note 1)	$ 3,330,890	$ 1,450,376
Investments (Note 1)	3,193,313	3,335,987
Interest receivable – investments	6,607	4,165
Accounts receivable – services	47,940	55,279
Accounts receivable – federal grant	283,575	1,257,752
Accounts receivable – state and local assistance	220,737	5,760
Accounts receivable – other	252,260	110,024
Lease receivable, current (Note 2)	400,000	400,000
Inventory - parts and supplies (Note 1)	211,293	213,412
Prepaid expenses	356,264	341,554
Total current assets	8,302,879	7,174,309
Lease receivable, non-current (Note 2)	4,745,205	5,145,205
Capital assets not being depreciated (Note 3)	4,033,486	3,143,177
Capital assets being depreciated, net (Note 3)	14,725,531	16,651,087
Total assets	$ 31,807,101	$ 32,113,778
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 691,515	$ 74,039
Accrued payroll	135,893	66,789
Accrued compensated absences (Note 1)	36,129	36,129
Other liabilities	217,523	112,541
Total liabilities	1,081,060	289,498
Net assets		
Invested in capital assets	18,759,017	19,794,264
Unrestricted	11,967,024	12,030,016
Total net assets	30,726,041	31,824,280
Total liabilities and net assets	$ 31,807,101	$ 32,113,778

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended December 31, 2007 and 2006

	2007	2006
Operating revenue		
Passenger fares	$ 1,347,746	$ 1,373,706
Special services	44,728	29,092
Advertising	60,000	60,000
Miscellaneous	148,000	155,766
Total operating revenue	1,600,474	1,618,564
Operating expense		
Labor	4,964,930	4,648,234
Fringe benefits	1,402,427	1,393,621
Services	1,530,806	930,487
Materials and supplies	1,586,610	1,424,017
Utilities	196,744	174,490
Insurance	338,195	449,879
Dues and subscriptions	27,168	22,657
Travel and meetings	20,161	30,535
Advertising and promotion	36,367	61,526
Depreciation	2,261,505	2,250,805
Other	10	-
Total operating expenses	12,364,923	11,386,251
Operating loss	(10,764,449)	(9,767,687)
Nonoperating revenues		
Investment interest	204,585	183,355
Local government assessments and taxes	4,304,918	4,010,144
Federal grants and reimbursements	1,284,836	1,364,379
State operating grants	2,201,749	2,434,473
Total nonoperating revenues	7,996,088	7,992,351
Net loss before capital contributions	(2,768,361)	(1,701,632)
Capital contributions - grants	1,670,122	745,241
Change in net assets	(1,098,239)	(1,030,095)
Net assets, beginning of year	31,824,280	32,854,375
Net assets, end of year	$ 30,726,041	$ 31,824,280

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Receipts from passengers	$ 1,547,813	$ 1,616,998
Receipts from leased operations	400,000	454,795
Receipts from other operations	60,000	60,000
Payments to employees	(4,895,826)	(4,118,736)
Payments for fringe benefits	(1,402,427)	(1,901,720)
Payments for services	(1,583,944)	(2,034,398)
Payments for materials and supplies	(1,584,491)	(1,427,046)
Net cash used by operating activities	(7,458,875)	(7,350,107)
Cash flows from noncapital financing activities		
Receipts of local government assessments and taxes	4,304,918	4,391,011
Receipts of federal and state government grants and reimbursements	4,245,790	2,313,876
Net cash provided by noncapital financing activities	8,550,708	6,704,887
Cash flows from capital and related financing activities		
Acquisition of capital assets	(1,226,258)	(749,364)
Capital contributions - grants	1,670,122	745,241
Net cash used by capital and related financing activities	443,864	(4,123)
Cash flows from investing activities		
Interest income	202,143	186,013
Net cash used by investing activities	202,143	186,013
Net change in cash and cash equivalents	1,737,840	(463,330)
Cash and cash equivalents at beginning of year	4,786,363	5,249,693
Cash and cash equivalents at end of year	$ 6,524,203	$ 4,786,363

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2007 and 2006

	2007	2006
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (10,764,449)	$ (9,767,687)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	2,261,505	2,250,805
Loss/(gain) on disposal of capital assets	-	2,881
Change in assets and liabilities		
Accounts receivable	(134,897)	10,675
Lease receivable	400,000	454,795
Inventory	2,119	(3,029)
Prepaid Expense	(14,710)	(236,473)
Accounts payable	617,471	8,127
Accrued payroll	69,104	19,618
Accrued compensated absences	-	1,781
Other liabilities	104,982	(91,600)
Net cash used by operating activities	$ (7,458,875)	$ (7,350,107)

See accompanying notes to financial statements.

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Operations: South Bend Public Transportation Corporation (Corporation) is a municipal corporation established under Indiana Code 36-9-4-11 which provides transportation services for the citizens of South Bend and Mishawaka, Indiana.

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

GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Corporation applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

Cash: The Corporation had $3,238,595 and $1,359,251 deposited in local banks at December 31, 2007 and 2006, which is fully insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposits Insurance Fund. At December 31, 2007 and 2006 the Corporation had $90,879 and $89,608 deposited as collateral for the Corporation's auto liability insurance plan more fully disclosed in Note 9.

Investments: The Corporation is authorized by statute to invest in obligations of the U.S. Treasury and U.S. Agencies, certificates of deposit and repurchase agreements. The Corporation's practice is to invest funds with local, federally insured banks. All investments are fully insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposits Insurance Fund. Investments are carried at cost which, for certificates of deposit and repurchase agreements, generally approximates fair market value. The Corporation's investments consisted of bank certificates of deposit at December 31, 2007 and 2006.

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

(Continued)

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Buildings, Equipment and Depreciation: Property, buildings and equipment are capitalized at cost. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is recorded using the straight-line method over the following useful lives:

Buildings and improvements	5 - 25 years
Revenue vehicles and equipment	7 - 12 years
Service vehicles and equipment	3 - 6 years
Shop and garage equipment	3 - 10 years
Furniture and office equipment	3 - 10 years

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, and certain other qualifying absences such as sick leave. Compensated absences which have been earned but not paid are accrued in the financial statements.

Property Tax Calendar: Property taxes for the 2007 tax levy are attached as an enforceable lien on the property as of March 1, 2006; these taxes were levied in January 2007, by the passage of a tax ordinance. Tax bills are prepared by St. Joseph County and were issued in October, 2007 and payable in November, 2007. The County collects such taxes and remits them periodically.

The 2006 property tax levy had been recorded as revenue and the amounts that were not collected by December 31, 2006 were recorded as a receivable. No provision had been made for delinquent property taxes since in past years the amount averaged less than one percent per year.

Reporting Entity: In evaluating how to define the Corporation, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the Corporation and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Corporation is able to

(Continued)

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

exercise oversight responsibilities. Based upon the application of these criteria, no entities have been considered to be potential component units for the purpose of defining the Corporation's reporting entity.

Management Estimates and Assumptions: Management must make estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States of America that affect the amounts reported therein and the disclosures provided. These estimates and assumptions may change in the future and the future results could differ.

Cash and Cash Equivalents: For presentation in the statement of cash flows, cash and cash equivalents include unrestricted deposits and other investments with maturities, when purchased, of three months or less.

The following is a reconciliation of the statements of cash flows to the statements of net assets:

	2007	2006
Statements of Cash Flows		
Cash and cash equivalents at end of year	$ 6,524,203	$ 4,786,363
Statements of Net Assets		
Cash	$ 3,330,890	$ 1,450,376
Investments	3,193,313	3,335,987
	$ 6,524,203	$ 4,786,363

GASB Statements No. 34 & 37: The Corporation has adopted the provisions of the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34* in 2004. GASB Statements 34 and 37 establish financial reporting standards for all state and local governments and related entities. Statements 34 and 37 primarily relate to presentation and disclosure requirements, the inclusion of management's discussion and analysis, and the preparation of the Statements of Cash Flows using the direct method.

(Continued)

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principles: In June, 2004, GASB released Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". This statement is effective for fiscal periods beginning after December 15, 2006 for phase one governments (those with total annual revenues over $100 million). The Corporation will be implementing this statement for fiscal year ended December 31, 2008. The statement addresses post employment benefits other than pension and establishes standards for the measurement, recognition, and display of expense, expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Proprietary Fund Type: The Corporation 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.

Proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Net Assets is segregated into Invested in Capital Assets and Unrestricted. Revenues and expenses of the proprietary fund types are recognized using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned; expenses are recognized in the period incurred.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. There was no impact to the Corporation's net assets of these reclassifications.

(Continued)

NOTE 2 – LEASE RECEIVABLES

Under two of its federal capital assistance grants, the Corporation was awarded $3,000,000 of funding during 2000 to build or purchase a parking garage in downtown South Bend. The Corporation elected to purchase a garage from the City of South Bend (the City) that was constructed with certain modifications to accommodate the Corporation's needs.

The Corporation entered into a $3,000,000 direct financing lease with the City to lease the garage to the City for 15 years. The City will perform all management functions and will pay the Corporation $200,000 per year and a percentage of the parking revenues over expenses.

Under two of its federal capital assistance grants, the Corporation was awarded $4,000,000 of funding during 2005 to purchase a parking garage in downtown South Bend. The Corporation purchased a garage from the City of South Bend (the City) that was renovated with certain modifications to accommodate the Corporation's needs.

The Corporation entered into a $4,000,000 direct financing lease with the City to lease the garage to the City for 20 years. The City will perform all management functions and will pay the Corporation $200,000 per year and a percentage of the parking revenues over expenses.

At December 31, 2007 and 2006, the outstanding balance of the lease receivables was $5,145,205 and $5,545,205, respectively.

Future minimum lease payments to be received under both leases are as follows:

2008	$ 400,000
2009	400,000
2010	400,000
2011	400,000
2012	400,000
2013-2025	3,145,205
	5,145,205
Less: Current portion	400,000
Long-term portion	$ 4,745,205

(Continued)

NOTE 3 - CAPITAL ASSETS

Following is the rollforward for the Corporation's capital assets for 2007 and 2006:

Description	Balance at Dec. 31, 2006	Additions	Deletions	Balance at Dec. 31, 2007
Capital assets not being depreciated:				
Land	$ 3,143,177	$ 187,638	$ -	$ 3,330,815
Construction in progress - new building	-	702,671	-	702,671
Capital assets being depreciated:				
Buildings and improvements	9,747,585	13,881	-	9,761,466
Revenue vehicles and equipment	18,278,074	207,304	-	18,485,378
Service vehicles and equipment	391,654	81,734	-	473,388
Shop and garage equipment	544,581	-	-	544,581
Furniture and office equipment	315,569	33,030	-	348,599
Subtotal	29,277,463	335,949	-	29,613,412
Less accumulated depreciation for:				
Buildings and improvements	(4,788,022)	(357,257)	-	(5,145,279)
Revenue vehicles and equipment	(6,895,987)	(1,786,223)	-	(8,682,210)
Service vehicles and equipment	(277,087)	(45,711)	-	(322,798)
Shop and garage equipment	(417,940)	(30,817)	-	(448,757)
Furniture and office equipment	(247,340)	(41,497)	-	(288,837)
Total accumulated depreciation	(12,626,376)	(2,261,505)	-	(14,887,881)
Total capital assets being depreciated, net	16,651,087	(1,925,556)	-	14,725,531
Capital assets, net	$ 19,794,264	$ (1,737,918)	$ -	$ 18,759,017

(Continued)

NOTE 3 - CAPITAL ASSETS (Continued)

Description	Balance at Dec. 31, 2005	Additions	Deletions	Balance at Dec. 31, 2006
Capital assets not being depreciated:				
Land	$ 3,128,851	$ 17,207	$ 2,881	$ 3,143,177
Capital assets being depreciated:				
Buildings and improvements	9,737,013	10,572	-	9,747,585
Revenue vehicles and equipment	17,721,108	556,966	-	18,278,074
Service vehicles and equipment	308,232	83,423	-	391,655
Shop and garage equipment	498,733	45,848	-	544,581
Furniture and office equipment	280,220	35,349	-	315,569
Subtotal	28,545,306	732,158	-	29,277,464
Less accumulated depreciation for:				
Buildings and improvements	(4,425,771)	(362,251)	-	(4,788,022)
Revenue vehicles and equipment	(5,145,006)	(1,750,981)	-	(6,895,987)
Service vehicles and equipment	(233,561)	(43,526)	-	(277,087)
Shop and garage equipment	(384,210)	(33,730)	-	(417,940)
Furniture and office equipment	(187,023)	(60,317)	-	(247,340)
Total accumulated depreciation	(10,375,571)	(2,250,805)	-	(12,626,376)
Total capital assets being depreciated, net	18,169,735	(1,518,648)	-	16,651,087
Capital assets, net	$ 21,298,586	$ (1,501,441)	$ 2,881	$ 19,794,264

Through a competitive bid process in 2007, the Corporation entered into an agreement with an architectural firm to complete the design of the Corporation's new operation/maintenance and administrative facility. Total contract costs associated with the design are estimated to be $1.7 million and actual costs incurred through December 31, 2007 were $702,671.

NOTE 4 - LOCAL AND FEDERAL ASSISTANCE

Local and federal assistance is as follows:

	2007	2006
Federal preventive maintenance assistance grant (Note 5)	$ 1,219,978	$ 1,264,072
Federal education and training grant	7,483	22,000
Federal jobs access reverse commute grant	57,375	78,307
Property tax appropriation	3,692,390	3,757,525
Other tax appropriations	612,528	633,486
State operating assistance grant (Note 6)	2,201,749	2,053,606
	$ 7,791,503	$ 7,808,996

(Continued)

NOTE 5 - FEDERAL TRANSPORTATION ADMINISTRATION - PREVENTIVE MAINTENANCE ASSISTANCE GRANT

The Corporation is the designated recipient of funds under the Urban Mass Transportation Act of 1964. The preventative maintenance assistance grants are awarded to the Corporation and funds may be earned and disbursed over a 2 year period. The Corporation received assistance under these grants for the years ended December 31, 2007 and 2006 of $1,219,978 and $1,264,072. As of December 31, 2007 and 2006 there was $102,577 and $1,246,960, respectively, outstanding from the Federal Transportation Administration for preventive maintenance assistance.

NOTE 6 - STATE OF INDIANA - OPERATING ASSISTANCE GRANT

The Corporation is a designated recipient of operating assistance funds from the State of Indiana. The state makes distributions of funds to transit systems which have been appropriated for mass transit operating assistance. The total operating grant earned for the years ended December 31, 2007 and 2006 was $2,201,749 and $2,053,606. As of December 31, 2007 and 2006, there were no outstanding receivables from the State of Indiana for operating assistance.

NOTE 7 - CAPITAL CONTRIBUTIONS - GRANTS

Capital grants are earned as the Corporation expends funds in accordance with its federal and state grants. Generally, the Corporation receives an 80% federal match on all funds spent for budgeted items included in the grant agreements. The Corporation has also entered into grants on which the Corporation receives a 100% or a 50% federal match on budgeted items included in these grant agreements.

NOTE 8 – EMPLOYEE PENSION PLAN

<u>Plan Description</u>: The Corporation sponsors a defined benefit pension plan which provides retirement, death and disability benefits.

<u>Funding Policy</u>: The Corporation's and participant's contributions are fixed amounts payable weekly. On November 1, 2006, the Corporation's contribution increased to $51.63 per participant per week. Also on November 1, 2006, the participant's contribution increased to $30.00 per week. The required contribution is calculated through actuarial analysis to determine the contribution rates that are required over time to allow sufficient assets to be available to pay benefits when due. The allocation of the required contribution between the Corporation and the participants is determined through negotiation in conjunction with the union contract negotiation.

(Continued)

NOTE 8 - EMPLOYEE PENSION PLAN (Continued)

Annual Pension Cost: For the years ending 2007 and 2006, the Corporation's annual pension cost, including amortization of past service cost over 26 years, was $243,487 and $231,398. The participant's contributions totaled $141,450 and $132,459 for the years ending 2007 and 2006. The required contribution was determined as part of the January 1, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include a 6% investment rate of return.

GASB Statement 27 requires certain additional pension disclosures specific to the net pension obligation. At December 31, 2007 and 2006, the net pension obligation has been deemed to be immaterial to the financial statements as a whole, and these additional disclosures have been omitted from these statements.

The following is presented as historical trend information showing the plan's progress in accumulating sufficient assets to pay benefits when due.

Analysis of Funding Progress
(in thousands of dollars)

December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Over (Under) Funded AAL (a-b)
2007	$ 6,503	$ 5,659	115%	$ 844
2006	6,103	5,316	115%	787
2005	5,450	5,271	103	179
2004	5,052	4,905	103	147
2003	4,558	4,679	97	(121)
2002	3,816	4,357	88	(541)
2001	3,682	4,049	91	(367)
2000	3,430	3,694	93	(264)
1999	3,123	3,023	103	100
1998	4,990	4,947	101	43
1997	4,720	4,800	98	(80)

Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funding status. Analysis of this percentage over time is one measure of whether the plan is becoming financially stronger or weaker.

(Continued)

NOTE 8 - EMPLOYEE PENSION PLAN (Continued)

Additional pension plan information by revenues and expenses follows:

Revenues by Source

December 31,	Employer Contributions	Employee Contributions	Investment Income	Total	Percentage Employer Contributions To Total Wages
2007	$ 243,487	$ 141,450	$ 294,195	$ 679,132	6.15%
2006	231,398	132,459	523,998	887,885	5.72
2005	242,370	129,444	232,857	604,671	6.15
2004	226,417	122,164	331,485	680,066	5.99
2003	225,923	120,768	581,625	928,316	6.28
2002	225,749	119,876	(72,239)	273,386	6.50
2001	215,120	100,110	62,734	377,964	6.21
2000	216,242	57,800	93,620	367,662	6.27
1999	188,132	48,052	253,708	489,892	5.40
1998	159,650	54,345	317,608	531,603	4.64
1997	144,199	34,230	309,598	488,027	4.27

Expenses by Type

December 31,	Benefits	Contract Charges and Administrative Expenses	Distributions to Participants	Total
2007	$ 190,821	$ 48,811	$ 39,901	$ 279,533
2006	169,418	37,663	27,841	234,922
2005	150,712	41,486	14,194	206,392
2004	112,414	43,611	29,334	185,359
2003	108,319	35,161	43,149	186,629
2002	83,380	30,407	25,358	139,145
2001	65,084	45,691	15,291	126,066
2000	34,596	23,418	3,102	61,116
1999	117,656	28,296	437	146,389
1998	213,201	22,049	25,820	261,070
1997	204,390	18,660	27,835	250,885

(Continued)

NOTE 9 - LITIGATION, CONTINGENT LIABILITIES AND COMMITMENTS

Professional Transit Management, Ltd. provides management and advisory service to the Corporation. The term of the current contract is from October 1, 2007 through September 30, 2010. The basic service fees, including reimbursement for travel expenses, were $230,586 and $232,148 in 2007 and 2006. The current contract provides for basic annual fees as follows:

2008	$ 233,574
2009	242,382
2010	185,850

Capital and operating assistance grants financed by state and federal agencies are subject to audit by these agencies to determine if expenditures comply with conditions of the grants. In the opinion of management, no significant unrecorded liabilities will arise from such audits.

For a portion of the 2006 year, the Corporation was responsible for the cost of all collision damage to its buses up to $25,000 per occurrence. Costs that might result from such damage were charged against income upon occurrence. Vehicles leased to private carriers are required by the Corporation to be insured by the carrier. There were no material claims outstanding.

The Corporation also had automobile and general liability insurance coverage through the Insurance Company for the State of Pennsylvania. The Corporation was responsible for claims up to $250,000 with an aggregate per occurrence limit of $5,000,000. There were no general liability claims.

The amounts reserved and paid on the plans during the 2007 and 2006 years were not material to the financial statements as a whole.

Various claims and lawsuits arising from the normal course of business are pending against the Corporation. In the opinion of management, the potential loss on all claims should not have a material effect on the financial statements.

As of December 31, 2006, the Corporation entered into a contract for the purchase of real estate with the City of South Bend for certain land and buildings for a total purchase price of $4,000,000. The closing for this asset purchase is to occur prior to December 1, 2008. As of December 31, 2007 and 2006, the Corporation has paid a $1,000,000 earnest deposit towards this asset purchase and this amount is included in land on the Statement of Net Assets.

(Continued)

NOTE 10 - SUBSEQUENT EVENTS

At the Corporation's January 2008 monthly Board Meeting, the Board of Directors approved two ordinances relating to the financing of the new operations/maintenance/administration facility by the issuance of Bond Anticipation Notes (BANS) or Bonds in any combination up to $6,000,000. These BANS/bonds will be financed through future FTA grants, operating revenues, and leases with the City of South Bend (Note 2).

SUPPLEMENTAL SCHEDULE

SCHEDULE OF REVENUES, EXPENSES AND NONOPERATING ASSISTANCE

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
SCHEDULE OF REVENUES, EXPENSES AND NONOPERATING ASSISTANCE
For the ten years ended December 31, 2007

Year	Passenger Revenue	Charter Revenue	Non-operating Assistance	Other Revenue	Total Revenues	Operating Expenses	Surplus Before Depreciation	Depreciation	Net Surplus (Deficit)
1998	1,129,594	23,720	5,161,590	201,584	6,516,488	5,935,271	581,217	567,917	13,300
1999	1,272,447	27,455	5,254,255	280,839	6,834,996	6,453,099	381,897	867,974	(486,077)
2000	1,313,394	37,788	5,536,138	329,975	7,217,295	7,137,199	80,096	1,052,257	(972,161)
2001	1,203,731	33,058	6,031,165	320,934	7,588,888	7,313,401	275,487	988,537	(713,050)
2002	1,154,700	21,300	6,644,226	259,922	8,080,148	7,319,995	760,153	1,082,305	(322,152)
2003	1,163,287	21,583	7,432,445	229,869	8,847,184	7,934,504	912,680	1,483,464	(570,784)
2004	1,089,856	21,737	7,672,916	132,480	8,916,989	7,861,321	1,055,668	2,003,837	(948,169)
2005	1,204,218	29,991	7,512,975	233,358	8,980,542	8,469,722	510,820	2,212,452	(1,701,632)
2006	1,373,706	29,092	7,992,351	215,766	9,610,915	9,135,446	475,469	2,250,805	(1,775,336)
2007	1,347,746	44,728	7,996,088	208,000	9,596,562	10,103,418	(506,856)	2,261,505	(2,768,361)

SUPPLEMENTAL SCHEDULES

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2007

Federal Grantor/ Grant Number	Federal CFDA Number	Qualifying Expenditures In Excess of Reimbursements, Beginning of Year	Reimbursements Federal Share	Reimbursements Local Share	Reimbursements Total	Qualifying Expenditures Federal Share	Qualifying Expenditures Local Share	Qualifying Expenditures Total	Qualifying Expenditures In Excess of Reimbursements End of Year
U.S. Department of Transportation:									
Federal Transportation Administration									
Preventive Maintenance:									
IN-90-X485 (2006)	20.507	$ -	$ 56,297	$ 14,075	$ 70,372	$ 56,297	$ 14,075	$ 70,372	$ -
Preventive Maintenance:									
IN-90-X514 (2006)	20.507	1,558,701	1,300,000	325,000	1,625,000	53,039	13,260	66,299	-
Preventive Maintenance:									
IN-90-X541 (2007)	20.507	-	1,015,550	253,888	1,269,438	1,118,127	279,533	1,397,660	128,222
Education and Training:									
IN-90-X473	20.507	3,159	2,527	632	3,159			-	-
IN-90-X485	20.507	2,987	8,975	2,243	11,218	6,585	1,646	8,231	-
IN-90-X514	20.507	-	898	226	1,124	898	226	1,124	-
Jobs Access Reverse Commute (JARC):									
IN-37-X009 (2002)	20.507	12,255	59,387	59,387	118,774	57,375	57,375	114,750	8,231
Capital Assistance:									
IN-03-0083	20.507	-	9,738	-	9,738	10,221	-	10,221	483
IN-90-X220	20.507	-	20,821	5,205	26,026	23,831	5,958	29,789	3,763
IN-90-X323	20.507	8,599	114,617	28,655	143,272	108,470	27,119	135,589	916
IN-90-X453	20.507	-	27,104	6,777	33,881	27,104	6,777	33,881	-
IN-90-X473	20.507	3,640	115,550	28,888	144,438	112,638	28,160	140,798	-
IN-90-X485	20.507	14,954	528,566	132,141	660,707	686,009	171,502	857,511	211,758
IN-90-X514	20.507	-	48,856	12,214	61,070	55,804	13,952	69,756	8,686
IN-90-X541	20.507	-	23,950	5,988	29,938	20,253	5,064	25,317	(4,621)
		27,193	889,202	219,868	1,109,070	1,044,330	258,532	1,302,862	220,985
		$ 1,604,295	$ 3,332,836	$ 875,319	$ 4,208,155	$ 2,336,651	$ 624,647	$ 2,961,298	$ 357,438

NOTE 1 - BASIS OF PRESENTATION

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

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Crowe Chizek and Company LLC
Member Horwath International

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
South Bend Public Transportation Corporation
South Bend, Indiana

We have audited the financial statements of South Bend Public Transportation Corporation ("Corporation") as of and for the year ended December 31, 2007, and have issued our report thereon dated the same date as this report. 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.

<u>Internal Control Over Financial Reporting</u>

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2007-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Corporation in a separate letter dated August 11, 2008.

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
August 11, 2008

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
South Bend Public Transportation Corporation
South Bend, Indiana

Compliance

We have audited the compliance of South Bend Public Transportation Corporation ("Corporation") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Corporation's internal control over compliance.

A *control deficiency* in the Corporation's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Corporation's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph in this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
August 11, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_X_ Yes	___ No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes	_X_ None Reported
Noncompliance material to financial statements noted?	___ Yes	_X_ No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?	___ Yes	_X_ No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes	_X_ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	___ Yes	_X_ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.507	Federal Transit Capital, Preventative Maintenance and Operating Assistance Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee?	___ Yes	_X_ No

(Continued)

Section II - Financial Statement Findings

Finding 2007-01 - Internal Controls over Financial Reporting

Statement of Condition: The Auditing Standards Board (ASB) has issued a series of new audit standards which are collectively referred to as the "Risk Assessment Standards" (Standards) and these standards represent the ASB's ongoing efforts to develop stronger and more definitive auditing standards that are intended to enhance auditor performance and thereby improve audit effectiveness in regards to financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The new Standards require auditors to more fully understand the risks associated with the Corporation's business, perform more detailed testing and corroboration of the Corporation's controls to address areas of more significant risk to ensure the financial statements are not materially misstated.

In connection with the implementation of these Standards for the December 31, 2007 audit, we noted the following control deficiencies listed below related to the financial statements.

- Various adjusting journal entries were required to be posted to correct misstatements and additional uncorrected misstatements ("waived entries") were also noted related to the financial statements internally prepared by management (significant deficiency);

- The small size of the accounting staff results in insufficient segregation of duties. We noted many instances in which account reconciliations were prepared by individuals who have access to the recording function and there was no supporting documentation that these reconciliations were reviewed and approved on a monthly basis (significant deficiency);

- While the management implemented additional review procedures over various account reconciliations as well as monthly farebox reconciliation reports, these review procedures were not formally implemented until the middle of the 2007 year. As a result, while control deficiencies were resolved by December 31, 2007, deficiencies existed for a portion of time under the year covered by this audit (deficiency);

- Management has not performed a robust documented internal risk assessment process, formally documenting the consideration and assessment of 1) material fraud risks; and 2) risks (internal, external, or other) relevant to the preparation of financial statements in conformity with GAAP (deficiency).

Statement on Auditing Standards No. 112 *"Communicating Internal Control Related Matters Identified in an Audit"* requires auditors to review and evaluate internal control weaknesses not only individually, but also in the aggregate. The aggregation of these control deficiencies (significant deficiencies and deficiencies) has been deemed to be a material weakness.

(Continued)

__Criteria:__ As noted above, the Standards require management to implement controls and demonstrate the ability to produce the financial statements, free of material misstatement, in accordance with GAAP. They also require management and others charged with governance to implement controls and procedures throughout the organization to identify, assess, and address the risks associated with the Corporation's business as well the risks associated with financial reporting.

__Effect:__ The weaknesses in controls primarily center on management's ability to prepare financial statements internally, in accordance with GAAP. As a result, internal financial statements may contain material misstatements. Additional business risk may be present if daily business decisions are based on inaccurate financial data.

__Cause:__ New accounting and auditing literature continues to be added at an astonishing pace. Many business transactions have complex accounting rules and guidance is being produced from various authoritative sources. Each of these elements add a significant financial cost to the internal control process, a pressure that small and mid-size companies alike have been facing for years. It simply is very difficult, and in many cases, not feasible for smaller companies to react.

__Recommendation:__ If management would like to discuss various options (training, tools, restructuring) to help improve the Corporation's internal controls over the annual financial reporting process, we would be pleased and prepared to assist you in preparing a viable plan moving forward. Special focus should be given towards further segregating duties internally, implementing additional reviews and checks to ensure internal financial statements are prepared in accordance with GAAP, and the creation of a formal risk assessment process to identify and document risks (fraud and other) related to the financial statements.

__Management's Response:__ Adjustments were made to correct two of the journal entries that were made by mistake. TRANSPO will take corrective measures to make sure that this does not occur again. In the statement which involves the pension, the contract with the actuary who completed the report was signed before current staff was employed by TRANSPO. In addition, the prior controller indicated to the actuary that GASB 27 analysis did not need to be completed. The current staff was not aware that the GASB 27 report was not being completed. If we were made aware, we would have made sure that the proper report was completed. TRANSPO staff will recommend to the Pension Committee that an RFP be completed to ensure that the annual pension document be in compliance with GASB 27. We also disagree with the second uncorrected item, Engel settlement. This item came up after the financial statements were completed. We do not believe it was necessary to make an adjustment to the 2007 figures. However, the entry was recorded with 2008 journal entries.

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Our staff is made up of only two individuals. It is very difficult to have staff outside the accounting department review journal entries when they do not have an accounting background. If Crowe has options that are feasible, TRANSPO would like to discuss these options.

After the audit was completed in June 2007, all journal entries were approved by an independent individual. We feel that to go back and have an independent person review the journal entries would be time consuming and not provide any benefit.

TRANSPO agrees and will implement an annual internal risk assessment. Internal risk evaluations were not documented by the prior controllers or indicated on any forms as an annual requirement. With the form supplied to TRANSPO by Crowe, we will complete a yearly internal risk assessment.

TRANSPO will start having the General Manager approve all future draw downs by signing the federal draw down form before it is submitted to the FTA.

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Section III - Federal Award Findings

There were no findings for the year ended December 31, 2007.

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Section IV – Prior Year Findings and Questioned Costs

Finding 2006-01

Statement of Condition: A new auditing standard, Statement on Auditing Standards (SAS) No. 112 *"Communicating Internal Control Related Matters Identified in an Audit"*, clarified management's responsibility to have internal controls in place to apply appropriate accounting principles and provide information to produce the year-end annual report in accordance with accounting principles generally in the United States of America (GAAP). While management is not required to prepare the annual report, management does need to demonstrate the level of qualifications and controls to prepare and review the report without significant deficiencies or material weaknesses in these controls. During our audit in for year ended December 31, 2006, we noted instances in which entries were "waived" for uncorrected misstatements that were not considered material.

While the effect of the waived entries was not considered material to the December 31, 2006 financial statements, the potential exists for internal financial statements to not be presented consistent with GAAP.

Status: Management has made many improvements related to internal financial reporting, but as noted in Finding 2007-01 of these financial statements, adjusting journal entries and certain uncorrected financial statement misstatements were noted during the December 31, 2007 audit. In addition, the new standards required a much closer look into controls of the Corporation and additional deficiencies related to internal controls over financial reporting were noted.

Finding 2006-02

Statement of Condition For Corporations that receive funding from the Federal Transportation Administration (FTA), the FTA requires the Corporation to annually adopt a goal for the participation of Disadvantaged Business Enterprises (DBE) in its procurement process and for the Corporation to report the progress towards this goal bi-annually. These biannual reports must be filed within two month of the filing dates. In 2006, a DBE report was never filed for the period April 1, 2006 - September 30, 2006.

Status: The errors noted in the prior year report were primarily due to turnover in management positions. During 2007, management filed all quarterly DBE Reports on time and the staff responsible for these reports have attended DBE training to insure that the DBE program will be administered per the DBE circular guidelines.

Finding 2006-03

Statement of Condition: FTA regulations require quarterly reports to be submitted for each grant program showing the quarterly expenditures, the overall expenditures, and the progress towards required benchmarks. In 2006, the second quarter expenditures for grants IN-90-X453, IN-90-X302, and IN-90-X485 were incorrectly reported in both the second and third quarter reports. While the reporting errors were corrected in the fourth quarter report for grants IN-90-X453 and IN-90-X302, an additional reporting error occurred for grant IN-90-X485, and that error was not subsequently corrected until the first quarter of 2007. As noted below, these errors were not prevented because there was no secondary review process in place prior to the submission of the reports.

Status: Necessary procedures have been implemented by management to ensure the quarterly reports are prepared accurately. No errors were noted during testing performed in connection with the December 31, 2007 audit.

Finding 2006-04

Statement of Condition: Regulations require that "the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period." The Corporation did not meet this requirement for the December 31, 2005 audit as notification was received in May 2007 from the U.S. Department of Commerce indicating that the 2005 reporting package obtained by the Federal Audit Clearinghouse was incomplete due to "missing components."

Status: The December 31, 2006 audit report was submitted to the Federal Audit Clearinghouse before the deadline.