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September 20, 2011

Board of Directors  
South Bend Public Transportation Corporation  
901 E. Northside Boulevard  
South Bend, IN 46617

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the South Bend Public Transportation Corporation, as of December 31, 2008 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' 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, 2008 and 2007

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
South Bend, Indiana

ANNUAL REPORT  
December 31, 2008 and 2007

CONTENTS

REPORT OF INDEPENDENT AUDITORS ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES.....	1
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET ASSETS.....	12
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS.....	13
STATEMENTS OF CASH FLOWS .....	14
NOTES TO FINANCIAL STATEMENTS.....	16
SUPPLEMENTAL SCHEDULES	
SCHEDULE OF REVENUES, EXPENSES AND NONOPERATING ASSISTANCE .....	27
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	28
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	29
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 .....	30
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.....	32
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	35



Crowe Horwath LLP  
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, 2008 and 2007, 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, 2008 and 2007 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 May 11, 2009 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 Horwath LLP*

Crowe Horwath LLP

South Bend, Indiana  
May 11, 2009

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2008 and 2007

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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, 2008 and 2007. 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-three (123) 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 2008 the Corporation's net assets decreased by \$853,545. This change represents a 22% decrease over the preceding year. This decrease is due to an increase in labor and materials expense during fiscal year 2008. The Corporation received \$1,192,826 of capital contributions from the Federal Transit Administration. The majority of this receipt was used for the purchase of Automatic Passenger Counters, Preventative Maintenance reimbursement and Pre-Construction expenses for the Corporation's new operations/maintenance and administrative facility.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2008 and 2007

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During fiscal year 2007 the Corporation's net assets decreased by \$1,098,239. This change represented less than a 1% increase over the preceding year. This decrease was 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.

## 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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2008 and 2007

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- *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, 2008, the Corporation's total assets reached \$30,973,857. This represents a decrease of \$833,244 or approximately 3% over the prior year. Total liabilities amounted to \$1,101,361. This represents an increase of \$20,301 or approximately 2% over the prior year. Consequently net assets reached \$29,872,496. This represents a decrease of \$853,545 or approximately 3% (see Table 1). The decrease is primarily attributable to increases in labor expenses, materials and supplies expenses, and other expenses, offset by decreases in benefits and services expenses for 2008.

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 an 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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2008 and 2007

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**Change in net assets.** The change in net assets at December 31, 2008, was a decrease of \$853,545 which represents a 22% decrease over the prior year. The Corporation's total operating revenues (expenses) increased by \$217,874 or approximately 14%. The Corporation's total non-operating revenues increased by \$615,715 over the preceding fiscal year. This increase represents approximately 8%. Total operating expenses increased by \$111,599 or approximately 1%. The changes in net assets are detailed in Table 2.

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

- **Revenues:** During 2008, operating revenues principally fare revenues, increased by 12%. This is attributed to an increase in the sale of the Corporation's monthly pass by locally funded agencies and a fully allocated rate being charged for special services. Non-operating revenues increased by \$615,715 from the prior fiscal year. This increase is primarily attributable to an increase in State PMTF funds.
- 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.
- **Expenses:** During 2008, total operating expenses increased by 1% over the prior period. Excluding depreciation, operating expenses rose under 1% which management primarily attributes to a decrease in fringe benefits and services. Materials and supplies rose by approximately 25% principally due to rising fuel prices.

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.

- **Capital contributions:** During fiscal year 2008 capital contributions decreased by \$477,296 or 29%. This decrease was primarily attributable to construction of new operating/maintenance/administrative facility being delayed a year.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2007 and 2006

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- 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.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets.** As of December 31, 2008, the Corporation had invested \$17,537,730 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents a decrease (including additions and disposals) of \$1,221,287 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.

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.

**Long-term debt.** As of December 31, 2008 and 2007, the Corporation had no bonded debt outstanding and has not issued any in the past.

### 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 2009 budget. Through marketing, operations, and other community efforts, the Corporation anticipates increased ridership during the fiscal year 2009.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2007 and 2006

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**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, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>Percentage Change 2008 vs. 2007</u>	<u>2006</u>	<u>Percentage Change 2007 vs. 2006</u>
<b>Assets:</b>					
Current assets	\$ 9,090,922	\$ 8,302,879	9%	\$ 7,174,309	16%
Other assets	4,345,205	4,745,205	-8%	5,145,205	-8%
Capital assets (net)	<u>17,537,730</u>	<u>18,759,017</u>	<u>-7%</u>	<u>19,794,264</u>	<u>-5%</u>
Total assets	<u>\$ 30,973,857</u>	<u>\$ 31,807,101</u>	<u>-3%</u>	<u>\$ 32,113,778</u>	<u>-1%</u>
<b>Liabilities:</b>					
Current liabilities	\$ 1,101,361	\$ 1,081,060	2%	\$ 289,498	273%
Other long-term liabilities	-	-	-	-	-
Total liabilities	<u>\$ 1,101,361</u>	<u>\$ 1,081,060</u>	<u>2%</u>	<u>\$ 289,498</u>	<u>273%</u>
<b>Net assets:</b>					
Invested in capital assets net of related debt	\$ 17,537,730	\$ 18,759,017	-7%	\$ 19,794,264	-5%
Unrestricted	<u>12,334,766</u>	<u>11,967,024</u>	<u>3%</u>	<u>12,030,016</u>	<u>-1%</u>
Total net assets	<u>\$ 29,872,496</u>	<u>\$ 30,726,041</u>	<u>-3%</u>	<u>\$ 31,824,280</u>	<u>-3%</u>

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
CHANGES IN NET ASSETS

TABLE 2

Years ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>Percentage Change 2008 vs. 2007</u>	<u>2006</u>	<u>Percentage Change 2007 vs. 2006</u>
<b>Operating revenues:</b>					
Passenger fares	\$ 1,508,793	\$ 1,347,746	12%	\$ 1,373,706	-2%
Special services	12,411	44,728	-72%	29,092	54%
Advertising	70,000	60,000	17%	60,000	0%
Miscellaneous	227,144	148,000	53%	155,766	-5%
<b>Total operating revenues</b>	<u>1,818,348</u>	<u>1,600,474</u>	<u>14%</u>	<u>1,618,564</u>	<u>-</u>
<b>Operating expenses:</b>					
Labor	5,212,627	4,964,930	5%	4,140,135	20%
Fringe benefits	1,227,796	1,402,427	-12%	1,901,720	-26%
Services	975,817	1,530,806	-36%	930,487	65%
Materials and supplies	1,987,485	1,586,610	25%	1,424,017	11%
Utilities	222,979	196,744	13%	174,490	13%
Insurance	239,951	338,195	-29%	449,879	-25%
Dues and subscriptions	20,666	27,168	-24%	22,657	20%
Travel and meetings	26,120	20,161	30%	30,535	-34%
Advertising and promotion	39,376	36,367	8%	61,526	-41%
Depreciation	2,274,118	2,261,505	1%	2,250,805	0%
Other	249,587	10	2495770%	-	0%
<b>Total operating expenses</b>	<u>12,476,522</u>	<u>12,364,923</u>	<u>1%</u>	<u>11,386,251</u>	<u>9%</u>
<b>Operating loss</b>	<u>(10,658,174)</u>	<u>(10,764,449)</u>	<u>-1%</u>	<u>(9,767,687)</u>	<u>10%</u>
<b>Net nonoperating revenues:</b>					
Investment interest	135,042	204,585	-34%	183,355	12%
Local government assessments and taxes	4,388,226	4,304,918	2%	4,010,144	7%
Federal grants and reimbursements	1,406,098	1,284,836	9%	1,364,379	-6%
State operating grants	2,778,496	2,201,749	26%	2,434,473	-10%
Loss on sale of capital assets	(96,059)	-	0%	-	0%
<b>Total nonoperating revenues</b>	<u>8,611,803</u>	<u>7,996,088</u>	<u>8%</u>	<u>7,992,351</u>	<u>0%</u>
<b>Net loss before capital contributions</b>	<u>(2,046,371)</u>	<u>(2,768,361)</u>	<u>-26%</u>	<u>(1,775,336)</u>	<u>56%</u>
<b>Capital contributions</b>	<u>1,192,826</u>	<u>1,670,122</u>	<u>-29%</u>	<u>745,241</u>	<u>124%</u>
<b>Change in net assets</b>	<u>(853,545)</u>	<u>(1,098,239)</u>	<u>-22%</u>	<u>(1,030,095)</u>	<u>0%</u>
<b>Net assets, beginning of year</b>	<u>30,726,041</u>	<u>31,824,280</u>	<u>-3%</u>	<u>32,854,375</u>	<u>-3%</u>
<b>Net assets, end of year</b>	<u>\$ 29,872,496</u>	<u>\$ 30,726,041</u>	<u>-3%</u>	<u>\$ 31,824,280</u>	<u>-3%</u>

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 CAPITAL ASSETS AT YEAR END  
 (NET OF DEPRECIATION)

TABLE 3

Years ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>Percentage Change 2008 vs. 2007</u>	<u>2006</u>	<u>Percentage Change 2007 vs. 2006</u>
Land	\$ 3,330,815	\$ 3,330,815	0%	\$ 3,143,177	6%
Land- New Ops Center	43,434	-	0%	-	0%
Construction in progress - new building	1,328,764	702,671	89%	-	0%
Buildings and structures	4,162,151	4,616,187	-10%	4,959,563	-7%
Revenue equipment	8,439,441	9,803,168	-14%	11,382,087	-14%
Other service equipment	101,558	150,590	-33%	114,567	31%
Shop and garage equipment	70,205	95,824	-27%	126,641	-24%
Office equipment	61,362	59,762	3%	68,229	-12%
Total capital assets	<u>\$ 17,537,730</u>	<u>\$ 18,759,017</u>	<u>-7%</u>	<u>\$ 19,794,264</u>	<u>-5%</u>

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF NET ASSETS  
 December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets		
Cash (Note 1)	\$ 917,708	\$ 3,330,890
Investments (Note 1)	3,768,709	3,193,313
Interest receivable - investments	121	6,607
Accounts receivable - services	45,005	47,940
Accounts receivable - federal grant	173,760	283,575 ✓
Accounts receivable - state and local assistance	2,690,424	220,737
Accounts receivable - other	55	252,260
Lease receivable, current (Note 2)	400,000	400,000 ✓
Inventory - parts and supplies (Note 1)	209,453	211,293
Assets held for others	249,589	-
Net pension asset (Note 8)	287,339	-
Prepaid expenses	<u>348,759</u>	<u>356,264</u>
Total current assets	9,090,922	8,302,879
Lease receivable, non-current (Note 2)	4,345,205	4,745,205
Capital assets not being depreciated (Note 3)	4,703,013	4,033,486
Capital assets being depreciated, net (Note 3)	<u>12,834,717</u>	<u>14,725,531</u>
 Total assets	 <u>\$ 30,973,857</u>	 <u>\$ 31,807,101</u>

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**LIABILITIES AND NET ASSETS**

Liabilities		
Accounts payable	\$ 254,390 ✓	\$ 691,515
Accrued payroll	98,961 ✓	135,893
Accrued compensated absences	296,814	36,129
Assets held for others	249,589	-
Other liabilities	<u>201,607</u>	<u>217,523</u>
Total liabilities	1,101,361	1,081,060
Net assets		
Invested in capital assets	17,537,730	18,759,017
Unrestricted	<u>12,334,766</u>	<u>11,967,024</u>
Total net assets	<u>29,872,496</u>	<u>30,726,041</u>
 Total liabilities and net assets	 <u>\$ 30,973,857</u>	 <u>\$ 31,807,101</u>

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See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Operating revenue</b>		
Passenger fares	\$ 1,508,793	\$ 1,347,746
Special services	12,411	44,728
Advertising	70,000	60,000
Miscellaneous	<u>227,144</u>	<u>148,000</u>
Total operating revenue	1,818,348	1,600,474
<b>Operating expense</b>		
Labor	5,212,627	4,964,930
Fringe benefits	1,227,796	1,402,427
Services	975,817	1,530,806
Materials and supplies	1,987,485	1,586,610
Utilities	222,979	196,744
Insurance	239,951	338,195
Dues and subscriptions	20,666	27,168
Travel and meetings	26,120	20,161
Advertising and promotion	39,376	36,367
Depreciation	2,274,118	2,261,505
Other	<u>249,587</u>	<u>10</u>
Total operating expenses	<u>12,476,522</u>	<u>12,364,923</u>
<b>Operating loss</b>	(10,658,174)	(10,764,449)
<b>Nonoperating revenues</b>		
Investment interest	135,042	204,585
Local government assessments and taxes	4,388,226	4,304,918
Federal grants and reimbursements	1,406,098	1,284,836
State operating grants	2,778,496	2,201,749
Loss on sale of capital assets	<u>(96,059)</u>	<u>-</u>
Total nonoperating revenues	<u>8,611,803</u>	<u>7,996,088</u>
<b>Net loss before capital contributions</b>	(2,046,371)	(2,768,361)
Capital contributions - grants	<u>1,192,826</u>	<u>1,670,122</u>
<b>Change in net assets</b>	(853,545)	(1,098,239)
Net assets, beginning of year	<u>30,726,041</u>	<u>31,824,280</u>
<b>Net assets, end of year</b>	<u>\$ 29,872,496</u>	<u>\$ 30,726,041</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Receipts from passengers	\$ 1,751,283	\$ 1,547,813
Receipts from leased operations	400,000	400,000
Receipts from other operations	70,000	60,000
Payments to employees	(4,988,874)	(4,895,826)
Payments for fringe benefits	(1,515,135)	(1,402,427)
Payments for services	(1,967,827)	(1,583,944)
Payments for materials and supplies	<u>(1,985,645)</u>	<u>(1,584,491)</u>
Net cash used by operating activities	(8,236,198)	(7,458,875)
<b>Cash flows from noncapital financing activities</b>		
Receipts of local government assessments and taxes	4,388,226	4,304,918
Receipts of federal and state government grants and reimbursements	<u>1,824,722</u>	<u>4,245,790</u>
Net cash provided by noncapital financing activities	6,212,948	8,550,708
<b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(1,167,499)	(1,226,258)
Proceeds from the sale of assets	18,609	-
Capital contributions - grants	<u>1,192,826</u>	<u>1,670,122</u>
Net cash used by capital and related financing activities	43,936	443,864
<b>Cash flows from investing activities</b>		
Interest income	<u>141,528</u>	<u>202,143</u>
Net cash used by investing activities	<u>141,528</u>	<u>202,143</u>
<b>Net change in cash and cash equivalents</b>	(1,837,786)	1,737,840
Cash and cash equivalents at beginning of year	<u>6,524,203</u>	<u>4,786,363</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 4,686,417</u>	<u>\$ 6,524,203</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities</b>		
Operating loss	\$ (10,658,174)	\$ (10,764,449)
Adjustments to reconcile loss from operations to net cash used by operating activities:		
Depreciation	2,274,118	2,261,505
Change in assets and liabilities		
Accounts receivable	255,140	(134,897)
Lease receivable	400,000	400,000
Inventory	1,840	2,119
Net pension asset	(287,339)	-
Prepaid expense	7,505	(14,710)
Accounts payable	(437,125)	617,471
Accrued payroll	(36,932)	69,104
Accrued compensated absences	260,685	-
Other liabilities	<u>(15,916)</u>	<u>104,982</u>
Net cash used by operating activities	<u>\$ (8,236,198)</u>	<u>\$ (7,458,875)</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**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 \$917,918 and \$3,238,595 deposited in local banks at December 31, 2008 and 2007, which is fully insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposits Insurance Fund.

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 consist of bank certificates of deposit with original maturities of less than 90 days.

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

Assets Held for Others: Assets held for others at December 31, 2008 consists of vehicles purchased by the Corporation on behalf of Madison Center. The Corporation has entered into a subcontracting agreement and title of the assets will be transferred to Madison Center in 2009.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**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 2008 tax levy are attached as an enforceable lien on the property as of March 1, 2007; these taxes were levied in January 2008, by the passage of a tax ordinance. Tax bills are prepared by St. Joseph County and were issued in October, 2008 and payable in February, 2009. The County collects such taxes and remits them periodically.

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.

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

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**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.

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.

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 cash deposits and other investments with maturities, when purchased, of three months or less.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2008 and 2007

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

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

	<u>2008</u>	<u>2007</u>
<u>Statements of Cash Flows</u>		
Cash and cash equivalents at end of year	\$ <u>4,686,417</u>	\$ <u>6,524,203</u>
<u>Statements of Net Assets</u>		
Cash	\$ 917,708	\$ 3,330,890
Investments	<u>3,768,709</u>	<u>3,193,313</u>
	<u>\$ 4,686,417</u>	<u>\$ 6,524,203</u>

Change in Accounting Principles: In May 2007, the GASB issued Statement No. 50 *Pension Disclosures*. The Statement more closely aligns financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and provides enhanced information in the notes to financial statements and required supplementary information for users of government financial statements. Statement No. 50 is effective and has been implemented for the year ended December 31, 2008.

**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. There were no additional amounts paid to the Corporation for years ended December 31, 2008 and 2007, respectively.

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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**NOTE 2 - LEASE RECEIVABLES (Continued)**

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. There were no additional amounts paid to the Corporation for years ended December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, the outstanding balance of the lease receivables was \$4,745,205 and \$5,145,205, respectively.

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

2009	\$ 400,000
2010	400,000
2011	400,000
2012	400,000
2013	400,000
2014-2025	<u>2,745,205</u>
	4,745,205
Less: Current portion	<u>400,000</u>
Long-term portion	<u>\$ 4,345,205</u>

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

**NOTE 3 - CAPITAL ASSETS**

Following is the roll forward for the Corporation's capital assets for 2008 and 2007:

<u>Description</u>	Balance at <u>Dec. 31, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>Dec. 31, 2008</u>
Capital assets not being depreciated:				
Land	\$ 3,330,815	\$ -	\$ -	\$ 3,330,815
Land- New OPS	-	43,434	-	43,434
Construction in progress - new building	702,671	626,093	-	1,328,764
Total capital assets not being depreciated	<u>\$ 4,033,486</u>	<u>\$ 669,527</u>	<u>\$ -</u>	<u>\$ 4,703,013</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 9,761,466	\$ -	\$ 160,000	\$ 9,601,466
Revenue vehicles and equipment	18,485,378	459,144	180,129	18,764,393
Service vehicles and equipment	473,388	-	75,529	397,859
Shop and garage equipment	544,581	3,396	-	547,977
Furniture and office equipment	348,599	35,432	-	384,031
Subtotal	29,613,412	1,837,026	415,658	29,695,726
Less accumulated depreciation for:				
Buildings and improvements	(5,145,279)	(339,370)	(45,334)	(5,439,315)
Revenue vehicles and equipment	(8,682,210)	(1,822,869)	(180,127)	(10,324,952)
Service vehicles and equipment	(322,798)	(49,032)	(75,529)	(296,301)
Shop and garage equipment	(448,757)	(29,015)	-	(477,772)
Furniture and office equipment	(288,837)	(33,832)	-	(322,669)
Total accumulated depreciation	<u>(14,887,881)</u>	<u>(2,274,118)</u>	<u>(300,990)</u>	<u>(16,861,009)</u>
Total capital assets being depreciated, net	<u>\$ 14,725,531</u>	<u>\$ (437,092)</u>	<u>\$ 114,668</u>	<u>\$ 12,834,717</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

**NOTE 3 - CAPITAL ASSETS (Continued)**

<u>Description</u>	Balance at <u>Dec. 31, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>Dec. 31, 2007</u>
Capital assets not being depreciated:				
Land	\$ 3,143,177	\$ 187,638	\$ -	\$ 3,330,815
Construction in progress - new building	-	702,671	-	702,671
Total capital assets not being depreciated	<u>\$ 3,143,177</u>	<u>\$ 890,309</u>	<u>\$ -</u>	<u>\$ 4,033,486</u>
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	<u>(12,626,376)</u>	<u>(2,261,505)</u>	<u>-</u>	<u>(14,887,881)</u>
Total capital assets being depreciated, net	<u>\$ 16,651,087</u>	<u>\$ (1,925,556)</u>	<u>\$ -</u>	<u>\$ 14,725,531</u>

Through a competitive bid process in 2008, 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, 2008 were \$1.3 million.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**NOTE 4 - STATE, LOCAL AND FEDERAL ASSISTANCE**

State, local and federal assistance is as follows:

	<u>2008</u>	<u>2007</u>
Federal preventive maintenance assistance grant (Note 5)	\$ 1,364,864	\$ 1,219,978
Federal education and training grant	-	7,483
Federal jobs access reverse commute grant	41,234	57,375
Property tax appropriation	3,759,495	3,692,390
Other tax appropriations	628,731	612,528
State operating assistance grant (Note 6)	<u>2,778,496</u>	<u>2,201,749</u>
	<u>\$ 8,572,820</u>	<u>\$ 7,791,503</u>

**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, 2008 and 2007 of \$1,364,864 and \$1,219,978. As of December 31, 2008 and 2007 there was \$154,079 and \$102,577, 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, 2008 and 2007 was \$2,778,496 and \$2,201,749. As of December 31, 2008 and 2007, there were no outstanding receivables from the State of Indiana for operating assistance.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**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**

Plan Description: The Corporation sponsors a trusted, single-employer, defined benefit pension plan covering certain full-time permanent union and nonunion employees. The plan provides retirement, death and disability benefits.

Employees who are members of the union automatically become participants in the plan as of their employment commencement date and nonunion employees can commence participation when they agree to make mandatory contributions to the plan. Nonunion employees that did not elect to participate in the plan within the later of one year of their employment commencement date or May 1, 2002 were no longer eligible to participate in the plan. Plan participants who retire at or after age 65 (or at age 60 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. Employees are also entitled to disability benefits in instances in which employment terminates from the result of "total and permanent disability". Employees who retire at age 65 (or active employees who die either before or after attaining age 55 with reduced death benefits) are entitled to death benefits payable to a designated beneficiary or spouse upon death of the retiree.

The Corporation reserves the right at any time to amend the plan provisions as deemed necessary, however, no plan amendments shall make it possible for any part of the plan assets to be used for purposes other than to satisfy all benefits entitled to the plan participants. The plan does not issue a stand-alone financial report.

Funding Policy and Annual Pension Cost: The Corporation's and participant's contributions are fixed amounts payable weekly. On November 1, 2008, the Corporation's contribution increased from \$51.63 to \$52.63 per participant per week. Also on November 1, 2008, the participant's contribution increased from \$30.00 to \$30.50 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 and governed by collective bargaining agreements.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2008 and 2007

**NOTE 8 - EMPLOYEE PENSION PLAN (Continued)**

For the years ending December 31, 2008 and 2007, the Corporation's annual pension cost (APC), including amortization of past service cost over 20 years, was \$83,745 and \$93,223, respectively. The Corporation's contributions totaled \$220,820 and \$243,487 for the years ending 2008 and 2007, respectively. The participant's contributions totaled \$127,614 and \$141,450 for the years ending 2008 and 2007, respectively. The required contribution was determined as part of the January 1, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include a 6.5% investment rate of return. An actuarial valuation as of January 1, 2009 has been performed to determine the required contribution for the 2009 year.

The following represents the significant components of the APC and changes in net pension asset during the year ended December 31, 2008:

Annual require contribution (ARC)	\$ 80,707
Interest on net pension asset	(9,767)
Adjustment to ARC	<u>12,805</u>
Annual pension cost	83,745
Contributions made	<u>220,820</u>
Increase in net pension asset	137,075
Net pension asset - December 31, 2007	<u>150,264</u>
 Net pension asset - December 31, 2008	 <u>\$ 287,339</u>

At December 31, 2007, the Corporation's net pension asset of \$150,264 was not recorded in the Statement of Net Assets as it was not considered to be material to the financial statements.

Schedule of Funding Progress: 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)**

<u>December 31,</u>	<u>Actuarial</u> <u>value of</u> <u>assets</u>	<u>Actuarial</u> <u>accrued</u> <u>liability</u> <u>(AAL)</u>	<u>Funded ratio</u>	<u>Over (under)</u> <u>funded AAL</u>	<u>Covered</u> <u>payroll</u>	<u>UAAL as</u> <u>percentage of</u> <u>covered</u> <u>payroll</u>
2008	\$ 5,222	\$ 6,630	78.76%	\$ (1,408)	\$ 4,359	-32.30%
2007	6,503	6,202	104.85%	301	3,959	0.00%
2006	6,103	5,940	102.74%	163	4,054	0.00%

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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**NOTE 8 - EMPLOYEE PENSION PLAN (Continued)**

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.

**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 \$243,682 and \$230,586 in 2008 and 2007. The current contract provides for basic annual fees as follows:

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.

The Corporation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. For the years ended December 31, 2008 and 2007, the Corporation has purchased commercial insurance policies covering risks of loss related to the above mentioned events.

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.

In December 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 July 1, 2009. The Corporation paid a \$1,000,000 earnest deposit towards this asset purchase and this amount is included in land on the Statement of Net Assets at December 31, 2008 and 2007.

**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, 2008

<u>Year</u>	<u>Passenger Revenue</u>	<u>Charter Revenue</u>	<u>Non-operating Assistance</u>	<u>Other Revenue</u>	<u>Total Revenues</u>	<u>Operating Expenses</u>	<u>Surplus Before Depreciation</u>	<u>Depreciation</u>	<u>Net Surplus (Deficit)</u>
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)
2008	1,508,793	12,411	8,611,803	297,144	10,430,151	10,202,404	227,747	2,274,118	(2,046,371)

**SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

December 31, 2008

Federal Grantor/ Grant Number	Federal CFDA Number	Expenditures In Excess of Reimbursements, Beginning of Year	Reimbursements		Qualifying Expenditures		Qualifying Expenditures In Excess of Reimbursements End of Year	
			Federal Share	Local Share	Federal Share	Local Share		Total
U.S. Department of Transportation:								
Federal Transportation Administration								
Preventive Maintenance:								
IN-90-X541 (2007)	20.507	\$ 128,222	\$ 284,448	\$ 71,114	\$ 355,562	\$ 181,872	\$ 45,468	\$ 227,340
Preventive Maintenance:								
IN-90-X573 (2007)	20.507	-	1,028,918	257,231	1,286,149	1,182,998	295,750	1,478,748
Jobs Access Reverse Commute (JARC):								
IN-37-X009 (2002)	20.507	8,231	45,342	45,342	90,684	41,227	41,227	82,454
Pass Through Grant for Madison Center								
IN-04-0015	20.507	-	199,832	49,958	249,790	199,832	49,958	249,790
Capital Assistance:								
IN-03-0083	20.507	483	38,849	-	38,849	45,433	-	45,433
IN-90-X220	20.507	3,763	3,010	753	3,763	2,716	679	3,395
IN-90-X302	20.507	-	18,197	4,549	22,746	18,197	4,549	22,746
IN-90-X323	20.507	916	63,350	15,838	79,188	62,618	15,654	78,272
IN-90-X453	20.507	-	11,695	2,924	14,619	11,695	2,924	14,619
IN-90-X485	20.507	211,758	862,072	215,518	1,077,590	697,805	174,452	872,257
IN-90-X514	20.507	8,686	27,942	6,986	34,928	25,756	6,440	32,196
IN-90-X541	20.507	(4,621)	117,564	29,395	146,959	121,264	30,316	151,580
IN-90-X573	20.507	-	7,521	1,881	9,402	7,520	1,881	9,401
		<u>220,985</u>	<u>1,150,200</u>	<u>277,843</u>	<u>1,428,043</u>	<u>993,004</u>	<u>236,896</u>	<u>1,229,900</u>
		\$ 357,438	\$ 2,708,740	\$ 701,488	\$ 3,410,228	\$ 2,598,932	\$ 669,299	\$ 3,268,231
								\$ 215,440

SOUTH BEND TRANSPORTATION CORPORATION  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2008

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**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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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, 2008, 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.

Internal Control Over Financial Reporting

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.

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.

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 or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

#### 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 May 11, 2009.

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 Horwath LLP*

Crowe Horwath LLP

South Bend, Indiana  
May 11, 2009



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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, 2008. 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.

As described in items 2008-01 in the accompanying schedule of findings and questioned costs, the Corporation did not comply with requirements regarding the quarterly reports that are applicable to its major federal program. Compliance with such requirements is necessary, in our opinion, for the Corporation to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

### 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-01 to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-01 to be a material weakness.

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 Horwath LLP

Crowe Horwath LLP

South Bend, Indiana  
May 11, 2009



SOUTH BEND TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2008

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**Section II - Financial Statement Findings**

There we no findings for the year ended December 31, 2008.

**Section III - Federal Award Findings**

**Finding 2008-01 - FTA Quarterly Reports**

**Statement of Condition:** Quarterly reports submitted to the FTA in 2008 for grant IN-90-X485 overstated expenditures by \$147,000. Expenditures were overstated because an expenditure of \$158,000 was reported on two quarterly reports, along with several smaller mistakes made throughout the year.

The senior accountant currently prepares the FTA reports and submits them to the FTA. The controller cannot view the reports on-line until they have been submitted and the senior accountant cannot print drafts of the report from the system, therefore the controller does review these reports until after they have been submitted. The controller does not sign off or in any other way document his review of these reports

**Criteria:** Federal and local expenditures are reported to the FTA each quarter by grant.

**Effect:** The Corporation did not meet federal compliance requirements.

**Cause:** Quarterly reports are not properly reviewed before submission.

**Questioned Cost:** None.

**Recommendation:** We recommend management correct the expenditure figures reported to the FTA for this grant. In addition, we recommend giving submission capabilities to the controller and taking these capabilities away from the senior accountant, who would still be responsible for preparing the reports. This would allow the controller to review the reports before they were submitted and his submission would act as his formal approval of the reports.

**Management's Response:** We agree and the expenditure was corrected on the 2nd quarterly report of 2009. In addition, we have developed and implemented a policy to complete reconciliations for each grant prior to submittal to the FTA. All reconciliations will have the support attached. The Controller will take over the responsibilities of entering the quarterly reports into team.

SOUTH BEND TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2008

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**Section IV - Prior Year Findings and Questioned Costs**

**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.

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SOUTH BEND TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2008

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**Status:** Management made various improvements in response to the Finding 2007-01.

- Adjustments were made to correct the journal entries that were made by mistake in 2007. All 2008 journal entries were approved by an independent person and no waived or adjusting journal entries were discovered during the 2008 audit.
- Monthly reconciliations were reviewed and approved in 2008.
- The review procedures implemented in the prior year worked effectively throughout 2008.
- TRANSPO performed an internal risk assessment in 2008 and plans on performing this assessment on an annual basis.