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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, 2009 to December 31, 2009. 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, 2009 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, 2009 and 2008

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
South Bend, Indiana

ANNUAL REPORT  
December 31, 2009 and 2008

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Crowe Horwath LLP  
Independent Member Crowe 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, 2009 and 2008, 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, 2009 and 2008 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 13, 2010 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 10 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 for the years ended December 31, 2009 and 2008 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have also previously audited, in accordance with auditing standards generally accepted in the United States of America the balance sheets of the Corporation as of December 31, 2007, 2006, 2005, 2004, 2003, 2002, 2001 and 2000 and the related statements of operations and cash flows for the years then ended (none of which are presented herein), and we expressed an unqualified opinion on those financial statements. In our opinion, the accompanying supplementary information shown on page 26 is fairly stated in all material respects in relation to the 2009/2008/2007/2006/2005/2004/2003/2002/2001 and 2000 basic financial statements taken as a whole. 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 13, 2010

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2009 and 2008

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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, 2009 and 2008. 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 twelve (12) 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 2009 the Corporation's net assets increased by \$1,764,615. This change represents a 6% increase over the preceding year. This increase is due to funds received specifically for the construction of the new operations facility. The Corporation received \$4,205,328 of capital contributions from the Federal Transit Administration. The majority of this receipt was used for the purchase, Preventative Maintenance reimbursement and Pre-Construction and 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, 2009 and 2008

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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.

## 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, 2009 and 2008

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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, 2009, the Corporation's total assets reached \$33,557,846. This represents an increase of \$2,583,989 or approximately 8% over the prior year. Total liabilities amounted to \$1,920,735. This represents an increase of \$819,374 or approximately 74% over the prior year. Consequently net assets reached \$31,637,111. This represents an increase of \$1,764,615 approximately 6% (see Table 1). The increase is primarily attributable to decrease in materials and supplies expenses and other expenses, offset by increases in benefits for 2009.

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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2009 and 2008

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**Change in net assets.** The change in net assets at December 31, 2009, was an increase of \$2,618,160. The Corporation's total operating revenues (expenses) decreased by \$369,775 or approximately 20%. The Corporation's total non-operating revenues decreased by \$615,444 compared to the preceding fiscal year. This decrease represents approximately 7%. Total operating expenses decreased by \$590,877 or approximately 5%. The changes in net assets are detailed in Table 2.

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 compared to 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.

- **Revenues:** During 2009, operating revenues principally fare revenues, decreased by 20%. This is attributed to changes in the Federal Regulations relating to Public Transportation Companies providing charter services. Non-operating revenues decreased by \$615,444 from the prior fiscal year. This decrease is primarily attributable to a decrease in Local property tax 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.
- **Expenses:** During 2009, total operating expenses decreased by 5% over the prior period. Excluding depreciation, operating expenses decreased 6% which management primarily attributes to a decrease in the cost of materials and supplies.

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.

- **Capital contributions:** During fiscal year 2009 capital contributions increased by \$3,102,502 or 253%. This increase was primarily attributable to funds received specifically for the construction of the new operating facility.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2009 and 2008

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- 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.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets.** As of December 31, 2009, the Corporation had invested \$20,803,826 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents an increase (including additions and disposals) of \$3,266,096 or 19% (see Table 3). This increase is primarily attributed to the construction of the new operations facility.

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.

**Long-term debt.** As of December 31, 2009 and 2008, 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 2010 budget. Through marketing, operations, and other community efforts, the Corporation anticipates increased ridership during the fiscal year 2010.

### 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.

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## SOUTH BEND PUBLIC TRANSPORTATION CORPORATION

## NET ASSETS

## TABLE 1

Years ended December 31, 2009, 2008 and 2007

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	<u>2009</u>	<u>2008</u>	Percentage Change 2009 vs. 2008	<u>2007</u>	Percentage Change 2008 vs. 2007
<b>Assets:</b>					
Current assets	\$ 8,808,815	\$ 9,090,922	-3%	\$ 8,302,879	9%
Other assets	3,945,205	4,345,205	-9%	4,745,205	-8%
Capital assets (net)	<u>20,803,826</u>	<u>17,537,730</u>	<u>19%</u>	<u>18,759,017</u>	<u>-7%</u>
Total assets	<u>\$ 33,557,846</u>	<u>\$ 30,973,857</u>	<u>8%</u>	<u>\$ 31,807,101</u>	<u>-3%</u>
<b>Liabilities:</b>					
Current liabilities	<u>\$ 1,920,735</u>	<u>\$ 1,101,361</u>	<u>74%</u>	<u>\$ 1,081,060</u>	<u>2%</u>
Total liabilities	<u>\$ 1,920,735</u>	<u>\$ 1,101,361</u>	<u>74%</u>	<u>\$ 1,081,060</u>	<u>2%</u>
<b>Net assets:</b>					
Invested in capital assets net of related debt	\$ 20,803,826	\$ 17,537,730	19%	\$ 18,759,017	-7%
Unrestricted	<u>10,833,285</u>	<u>12,334,766</u>	<u>-12%</u>	<u>11,967,024</u>	<u>3%</u>
Total net assets	<u>\$ 31,637,111</u>	<u>\$ 29,872,496</u>	<u>6%</u>	<u>\$ 30,726,041</u>	<u>-3%</u>

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SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
CHANGES IN NET ASSETS

TABLE 2

Years ended December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>Percentage Change 2009 vs. 2008</u>	<u>2007</u>	<u>Percentage Change 2008 vs. 2007</u>
<b>Operating revenues:</b>					
Passenger fares	\$ 1,210,020	\$ 1,508,793	-20%	\$ 1,347,746	12%
Special services	-	12,411	-100%	44,728	-72%
Advertising	74,160	70,000	6%	60,000	17%
Miscellaneous	164,393	227,144	-28%	148,000	53%
<b>Total operating revenues</b>	<u>1,448,573</u>	<u>1,818,348</u>	<u>-20%</u>	<u>1,600,474</u>	<u>14%</u>
<b>Operating expenses:</b>					
Labor	5,163,055	5,212,627	-1%	4,964,930	5%
Fringe benefits	1,577,102	1,227,796	28%	1,402,427	-12%
Services	927,258	975,817	-5%	1,530,806	-36%
Materials and supplies	1,387,245	1,987,485	-30%	1,586,610	25%
Utilities	236,757	222,979	6%	196,744	13%
Insurance	286,238	239,951	19%	338,195	-29%
Dues and subscriptions	25,495	20,666	23%	27,168	-24%
Travel and meetings	15,925	26,120	-39%	20,161	30%
Advertising and promotion	15,151	39,376	-62%	36,367	8%
Depreciation	2,251,127	2,274,118	-1%	2,261,505	1%
Other	292	249,587	-100%	10	2495770%
<b>Total operating expenses</b>	<u>11,885,645</u>	<u>12,476,522</u>	<u>-5%</u>	<u>12,364,923</u>	<u>1%</u>
<b>Operating loss</b>	<u>(10,437,072)</u>	<u>(10,658,174)</u>	<u>-2%</u>	<u>(10,764,449)</u>	<u>-1%</u>
<b>Net nonoperating revenues:</b>					
Investment interest	14,791	135,042	-89%	204,585	-34%
Local government assessments and taxes	3,478,936	4,388,226	-21%	4,304,918	2%
Federal grants and reimbursements	1,599,293	1,406,098	14%	1,284,836	9%
State operating grants	2,889,233	2,778,496	4%	2,201,749	26%
Gain (loss) on sale of capital assets	14,106	(96,059)	0%	-	0%
<b>Total nonoperating revenues</b>	<u>7,996,359</u>	<u>8,611,803</u>	<u>-7%</u>	<u>7,996,088</u>	<u>8%</u>
<b>Net loss before capital contributions</b>	<u>(2,440,713)</u>	<u>(2,046,371)</u>	<u>19%</u>	<u>(2,768,361)</u>	<u>-26%</u>
Capital contributions - grants	<u>4,205,328</u>	<u>1,192,826</u>	<u>253%</u>	<u>1,670,122</u>	<u>-29%</u>
<b>Change in net assets</b>	<u>1,764,615</u>	<u>(853,545)</u>	<u>-307%</u>	<u>(1,098,239)</u>	<u>-22%</u>
Net assets, beginning of year	<u>29,872,496</u>	<u>30,726,041</u>	<u>-3%</u>	<u>31,824,280</u>	<u>-3%</u>
<b>Net assets, end of year</b>	<u>\$ 31,637,111</u>	<u>\$ 29,872,496</u>	<u>6%</u>	<u>\$ 30,726,041</u>	<u>-3%</u>

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

TABLE 3

Years ended December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>Percentage Change 2009 vs. 2008</u>	<u>2007</u>	<u>Percentage Change 2008 vs. 2007</u>
Land	\$ 3,054,306	\$ 3,330,815	-8%	\$ 3,330,815	0%
Land- New Ops Center	54,176	43,434	25%	-	0%
Construction in progress - new building	6,304,973	1,328,764	374%	702,671	89%
Buildings and structures	4,141,330	4,162,151	-1%	4,616,187	-10%
Revenue equipment	7,045,998	8,439,441	-17%	9,803,168	-14%
Other service equipment	65,221	101,558	-36%	150,590	-33%
Shop and garage equipment	75,367	70,205	7%	95,824	-27%
Office equipment	62,455	61,362	2%	59,762	3%
<b>Total capital assets</b>	<b><u>\$ 20,803,826</u></b>	<b><u>\$ 17,537,730</u></b>	<b><u>19%</u></b>	<b><u>\$ 18,759,017</u></b>	<b><u>-7%</u></b>

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF NET ASSETS  
 December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets		
Cash (Note 1)	\$ 6,295,407	\$ 917,708
Investments (Note 1)	-	3,768,709
Interest receivable – investments	-	121
Accounts receivable – services	55,189	45,005
Accounts receivable – federal grant	1,120,076	173,760
Accounts receivable – state and local assistance	137,614	2,690,424
Accounts receivable – other	420	55
Lease receivable, current (Note 2)	500,000	400,000
Inventory - parts and supplies (Note 1)	283,960	209,453
Assets held for others	-	249,589
Net pension asset (Note 8)	310,721	287,339
Prepaid expenses	105,428	348,759
Total current assets	<u>8,808,815</u>	<u>9,090,922</u>
Lease receivable, non-current (Note 2)	3,945,205	4,345,205
Capital assets not being depreciated (Note 3)	9,413,455	4,703,013
Capital assets being depreciated, net (Note 3)	<u>11,390,371</u>	<u>12,834,717</u>
Total assets	<u>\$ 33,557,846</u>	<u>\$ 30,973,857</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 1,330,643	\$ 254,390
Accrued payroll	77,932	98,961
Accrued compensated absences	292,738	296,814
Assets held for others	-	249,589
Other liabilities	219,422	201,607
Total liabilities	<u>1,920,735</u>	<u>1,101,361</u>
Net assets		
Invested in capital assets	20,803,826	17,537,730
Unrestricted	<u>10,833,285</u>	<u>12,334,766</u>
Total net assets	<u>31,637,111</u>	<u>29,872,496</u>
Total liabilities and net assets	<u>\$ 33,557,846</u>	<u>\$ 30,973,857</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Operating revenue</b>		
Passenger fares	\$ 1,210,020	\$ 1,508,793
Special services	-	12,411
Advertising	74,160	70,000
Miscellaneous	164,393	227,144
Total operating revenue	<u>1,448,573</u>	<u>1,818,348</u>
<b>Operating expense</b>		
Labor	5,163,055	5,212,627
Fringe benefits	1,577,102	1,227,796
Services	927,258	975,817
Materials and supplies	1,387,245	1,987,485
Utilities	236,757	222,979
Insurance	286,238	239,951
Dues and subscriptions	25,495	20,666
Travel and meetings	15,925	26,120
Advertising and promotion	15,151	39,376
Depreciation	2,251,127	2,274,118
Other	292	249,587
Total operating expenses	<u>11,885,645</u>	<u>12,476,522</u>
<b>Operating loss</b>	(10,437,072)	(10,658,174)
<b>Nonoperating revenues</b>		
Investment interest	14,791	135,042
Local government assessments and taxes	3,478,936	4,388,226
Federal grants and reimbursements	1,599,293	1,406,098
State operating grants	2,889,233	2,778,496
Gain (loss) on sale of capital assets	14,106	(96,059)
Total nonoperating revenues	<u>7,996,359</u>	<u>8,611,803</u>
<b>Net loss before capital contributions</b>	(2,440,713)	(2,046,371)
Capital contributions - grants	<u>4,205,328</u>	<u>1,192,826</u>
<b>Change in net assets</b>	1,764,615	(853,545)
Net assets, beginning of year	<u>29,872,496</u>	<u>30,726,041</u>
<b>Net assets, end of year</b>	<u>\$ 31,637,111</u>	<u>\$ 29,872,496</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities</b>		
Receipts from passengers	\$ 1,364,229	\$ 1,751,283
Receipts from leased operations	300,000	400,000
Receipts from other operations	74,160	70,000
Payments to employees	(5,188,160)	(4,988,874)
Payments for fringe benefits	(1,600,484)	(1,515,135)
Payments for services	(926,550)	(1,967,827)
Payments for materials and supplies	<u>(1,461,752)</u>	<u>(1,985,645)</u>
Net cash from operating activities	(7,438,557)	(8,236,198)
 <b>Cash flows from noncapital financing activities</b>		
Receipts of local government assessments and taxes	3,478,936	4,388,226
Receipts of federal and state government grants and reimbursements	<u>6,095,020</u>	<u>1,824,722</u>
Net cash from noncapital financing activities	9,573,956	6,212,948
 <b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(5,804,189)	(1,167,499)
Proceeds from the sale of assets	1,057,540	18,609
Capital contributions - grants	<u>4,205,328</u>	<u>1,192,826</u>
Net cash from capital and related financing activities	(541,321)	43,936
 <b>Cash flows from investing activities</b>		
Interest income	<u>14,912</u>	<u>141,528</u>
Net cash from investing activities	<u>14,912</u>	<u>141,528</u>
 <b>Net change in cash and cash equivalents</b>	1,608,990	(1,837,786)
 Cash and cash equivalents at beginning of year	<u>4,686,417</u>	<u>6,524,203</u>
 <b>Cash and cash equivalents at end of year</b>	<u>\$ 6,295,407</u>	<u>\$ 4,686,417</u>
 <b>Supplemental disclosure of non-cash transactions</b>		
Construction in progress included in accounts payable	\$ 756,468	\$ -

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Reconciliation of operating loss to net cash from operating activities</b>		
Operating loss	\$(10,437,072)	\$(10,658,174)
Adjustments to reconcile loss from operations to net cash from operating activities:		
Depreciation	2,251,127	2,274,118
Change in assets and liabilities		
Accounts receivable	(10,549)	255,140
Lease receivable	300,000	400,000
Inventory	(74,507)	1,840
Net pension asset	(23,382)	(287,339)
Prepaid expense	243,331	7,505
Accounts payable	319,785	(437,125)
Accrued payroll	(21,029)	(36,932)
Accrued compensated absences	(4,076)	260,685
Other liabilities	<u>17,815</u>	<u>(15,916)</u>
Net cash from operating activities	<u>\$ (7,438,557)</u>	<u>\$ (8,236,198)</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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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.

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 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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

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.

Cash: The Corporation had \$6,295,407 and \$917,918 deposited in local banks at December 31, 2009 and 2008, 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. At December 31, 2008, the Corporation's investments consisted of bank certificates of deposit with original maturities of less than 90 days, recorded as cash equivalents.

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

Accounts Receivable: No allowance for bad debts has been established because management considers all material accounts receivable to be collectible.

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

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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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. The capitalization threshold for the Corporation is \$1,500. 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: For purposes of collecting property taxes from taxpayers, the 2009 tax levy was attached as an enforceable lien on properties as of March 1, 2009; these taxes were levied in January 2009, by the passage of a tax ordinance. Tax bills were prepared by St. Joseph County and were issued in October, 2009 and payable in December, 2009. The County collects such taxes and remits them periodically to the Corporation.

Property taxes for the 2008 tax levy were attached as an enforceable lien on properties as of March 1, 2007; these taxes were levied in January 2008, by the passage of a tax ordinance. Tax bills were prepared by St. Joseph County and were issued in October, 2008 and payable in February, 2009.

During 2009, the County inadvertently made an overpayment of property taxes to the Corporation, and included in accounts payable at December 31, 2009 is an amount totaling \$461,563 that was returned to the County in February 2010.

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.

Restricted Asset Spending Policy: Net assets are released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events. When an expenditure is incurred for which both restricted and unrestricted resources are available, it is the Corporation's policy to apply restricted resources first, then unrestricted resources as needed.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2009 and 2008

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

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

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

	<u>2009</u>	<u>2008</u>
<u>Statements of Cash Flows</u>		
Cash and cash equivalents at end of year	<u>\$ 6,295,407</u>	<u>\$ 4,686,417</u>
<u>Statements of Net Assets</u>		
Cash	\$ 6,295,407	\$ 917,708
Investments	<u>                  -</u>	<u>3,768,709</u>
	<u>\$ 6,295,407</u>	<u>\$ 4,686,417</u>

**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, until 2015. The City will perform all management functions and will pay the Corporation \$200,000 per year, with no interest, and a percentage of the parking revenues over expenses. There were no additional amounts paid to the Corporation for years ended December 31, 2009 and 2008, respectively.

Under two of its federal capital assistance grants, the Corporation was awarded \$4,000,000 of funding during 2005 to purchase an additional 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, 2009 and 2008

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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, until 2025. The City will perform all management functions and will pay the Corporation \$200,000 per year, with no interest and a percentage of the parking revenues over expenses. There were no additional amounts paid to the Corporation for years ended December 31, 2009 and 2008, respectively.

At December 31, 2009 and 2008, the outstanding balance of the two lease receivables was \$4,445,205 and \$4,745,205, respectively.

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

2010	\$ 500,000
2011	400,000
2012	400,000
2013	400,000
2014	400,000
2015-2025	<u>2,345,205</u>
	4,445,205
Less: Current portion	<u>500,000</u>
Long-term portion	<u>\$ 3,945,205</u>

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

**NOTE 3 – CAPITAL ASSETS**

Following is the rollforward for the Corporation's capital assets for 2009 and 2008:

<u>Description</u>	Balance at Jan. 1, 2009	<u>Additions</u>	<u>Deletions</u>	Balance at Dec. 31, 2009
Capital assets not being depreciated:				
Land	\$ 3,330,815	\$ 723,491	\$ (1,000,000)	\$ 3,054,306
Land- New OPS	43,434	54,176	(43,434)	54,176
Construction in progress - new building	<u>1,328,764</u>	<u>4,976,209</u>	<u>-</u>	<u>6,304,973</u>
 Total capital assets not being depreciated	 <u>\$ 4,703,013</u>	 <u>\$ 5,753,876</u>	 <u>\$ (1,043,434)</u>	 <u>\$ 9,413,455</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 9,601,466	\$ 340,193	\$ -	\$ 9,941,659
Revenue vehicles and equipment	18,764,393	379,539	-	19,143,932
Service vehicles and equipment	397,859	-	-	397,859
Shop and garage equipment	547,977	34,804	-	582,781
Furniture and office equipment	<u>384,031</u>	<u>52,245</u>	<u>-</u>	<u>436,276</u>
Subtotal	29,695,726	806,781	-	30,502,507
Less accumulated depreciation for:				
Buildings and improvements	(5,439,315)	(361,014)	-	(5,800,329)
Revenue vehicles and equipment	(10,324,952)	(1,772,982)	-	(12,097,934)
Service vehicles and equipment	(296,301)	(36,337)	-	(332,638)
Shop and garage equipment	(477,772)	(29,642)	-	(507,414)
Furniture and office equipment	<u>(322,669)</u>	<u>(51,152)</u>	<u>-</u>	<u>(373,821)</u>
Total accumulated depreciation	<u>(16,861,009)</u>	<u>(2,251,127)</u>	<u>-</u>	<u>(19,112,136)</u>
 Total capital assets being depreciated, net	 <u>\$ 12,834,717</u>	 <u>\$ (1,444,346)</u>	 <u>\$ -</u>	 <u>\$ 11,390,371</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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

<u>Description</u>	Balance at <u>Jan. 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>Dec. 31, 2008</u>
<b>Capital assets not being depreciated:</b>				
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
<b>Total capital assets not being depreciated</b>	<b>\$ 4,033,486</b>	<b>\$ 669,527</b>	<b>\$ -</b>	<b>\$ 4,703,013</b>
<b>Capital assets being depreciated:</b>				
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
<b>Less accumulated depreciation for:</b>				
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)
<b>Total accumulated depreciation</b>	<b>(14,887,881)</b>	<b>(2,274,118)</b>	<b>(300,990)</b>	<b>(16,861,009)</b>
<b>Total capital assets being depreciated, net</b>	<b>\$ 14,725,531</b>	<b>\$ (437,092)</b>	<b>\$ 114,668</b>	<b>\$ 12,834,717</b>

Construction of the Corporation's new operating/maintenance and administrative facility began in 2009. Total costs associated with the contract to construct this facility are estimated to be \$18.85 million and actual costs incurred on the contract through December 31, 2009 were \$4.4 million. The facility is anticipated to be completed near the end of calendar year 2010.

In connection with the construction of the new facility, the Corporation previously paid a \$1,000,000 deposit to purchase land from the City of South Bend, using federal capital grants. During 2009, the Corporation returned the deposit to the City and a new parcel of land was purchased from the City using operating funds. The federal capital grant funds previously utilized for the deposit were returned to the FTA and were subsequently approved to cover construction costs of the facility.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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

State, local and federal assistance is as follows:

	<u>2009</u>	<u>2008</u>
Federal preventive maintenance assistance grant (Note 5)	\$ 1,599,293	\$ 1,364,864
Federal jobs access reverse commute grant	-	41,234
Property tax appropriation	2,608,192	3,759,495
Other tax appropriations	870,744	628,731
State operating assistance grant (Note 6)	<u>2,889,233</u>	<u>2,778,496</u>
	<u>\$ 7,967,462</u>	<u>\$ 8,572,820</u>

In addition, the Corporation received \$4,205,328 and \$1,192,826 of federal capital contribution grants for the years ended December 31, 2009 and 2008, respectively.

**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 two year period. The Corporation received assistance under these grants for the years ended December 31, 2009 and 2008 of \$1,599,293 and \$1,364,864. As of December 31, 2009 and 2008 there was \$314,296 and \$154,079, 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, 2009 and 2008 was \$2,889,233 and \$2,778,496. As of December 31, 2009 and 2008, 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, 2009 and 2008

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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% 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.

Basis of Accounting: The accrual basis of accounting is utilized for the pension trust fund. Under this method, additions to net plan assets are recorded when earned and deductions from net plan assets are recorded when the time related liabilities are incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the term of the plan.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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

Methods Used to Determine Value of Investments: Pension plan assets consist of fixed-income and equity mutual funds, which are reported at their estimated fair values, determined from quoted market prices. Gains and losses represent increases (decreases) of cost over fair value.

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 week. Also on November 1, 2008, the participant's contribution increased from \$30.00 to \$30.50 per week. On November 1, 2009, the Corporation's contribution increased from \$52.63 to \$53.63 per participant per week. Also on November 1, 2009, the participant's contribution increased from \$30.50 to \$31.00 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 and governed by collective bargaining agreements.

For the years ending December 31, 2009 and 2008, the Corporation's annual pension cost (APC), including amortization of past service cost over 20 years, was \$221,003 and \$83,745, respectively. The Corporation's contributions totaled \$244,385 and \$220,820 for the years ending 2009 and 2008, respectively. The participant's contributions totaled \$143,696 and \$127,614 for the years ending 2009 and 2008, respectively. The required contribution was determined as part of the actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include a 6.5% investment rate of return. The unfunded actuarial accrued liability is amortized on a level percentage of projected payroll on an open 20 year basis. An actuarial valuation as of January 1, 2010 has been performed to determine the required contribution for the 2010 year.

The following represents the significant components of the APC and changes in net pension asset during the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Annual required contribution (ARC)	\$ 215,194	\$ 80,707
Interest on net pension asset	(18,677)	(9,767)
Adjustment to ARC	<u>24,486</u>	<u>12,805</u>
Annual pension cost (APC)	221,003	83,745
Contributions made	<u>244,385</u>	<u>220,820</u>
Increase in net pension asset	23,382	137,075
Net pension asset – beginning of year	<u>287,339</u>	<u>150,264</u>
Net pension asset – end of year	<u>\$ 310,721</u>	<u>\$ 287,339</u>

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SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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

Schedule of Funding Progress: Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funding status. The following is presented as historical trend information showing the plan's funding progress (in thousands) in accumulating sufficient assets to pay benefits when due.

<u>December 31,</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability <u>(AAL)</u>	Funded <u>Ratio</u>	Over (Under) Funded <u>AAL</u>	Covered <u>Payroll</u>	UAAL as Percentage of Covered <u>Payroll</u>
2009	\$ 5,818	\$ 6,748	86.20%	\$ (930)	\$ 4,607	(20.20)%
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%

**NOTE 9 – LITIGATION, CONTINGENT LIABILITIES AND COMMITMENTS**

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 \$243,028 and \$243,682 in 2009 and 2008. An agreement to extend this contract was signed in January 2010 with a term from October 1, 2010 through September 30, 2012. These contracts provide for basic annual fees as follows:

2010	\$ 248,730
2011	253,365
2012	194,175

Contingencies: 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, 2009 and 2008, the Corporation has purchased commercial insurance policies covering risks of loss related to the above mentioned events. In addition, 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.

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**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, 2009

<u>Year</u>	<u>Passenger Revenue</u>	<u>Charter Revenue</u>	<u>Non-operating Assistance</u>	<u>Other Operating Revenue</u>	<u>Total Revenues</u>	<u>Operating Expenses Before Depreciation</u>	<u>Surplus (Deficit) Before Depreciation</u>	<u>Depreciation</u>	<u>Net Surplus (Deficit)</u>
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)
2009	1,210,020	-	7,996,359	238,553	9,444,932	9,634,518	(189,586)	2,251,127	(2,440,713)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 December 31, 2009

Federal Grantor/ Grant Number	Federal CFDA Number	Qualifying Expenditures In Excess of Reimbursements, Beginning of Year	Reimbursements		Qualifying Expenditures		Total	Qualifying Expenditures In Excess of Reimbursements End of Year
			Federal Share	Local Share	Federal Share	Local Share		
U.S. Department of Transportation:								
Federal Transportation Administration								
ARRA Funding								
IN-96-X013(2009)	20.507	\$ -	\$ 3,427,637	\$ -	\$ 3,427,637	\$ 3,693,620	\$ -	265,983
Preventive Maintenance:								
IN-90-X473	20.507	-	41,917	10,480	52,397	41,917	10,480	-
Preventive Maintenance:								
IN-90-X591(2009)	20.507	-	1,172,388	293,096	1,465,484	1,486,684	371,671	392,871
Preventive Maintenance:								
IN-90-X573 (2007)	20.507	192,599	221,081	55,270	276,351	67,001	16,751	-
Pass Through Grant for Madison Center								
IN-04-0015	20.507	-	49,938	12,484	62,422	49,938	12,484	-
Capital Assistance:								
IN-03-0083	20.507	7,067	-	-	-	483,418	-	490,485
IN-90-X220	20.507	3,395	121,942	37,276	159,218	124,658	31,165	-
IN-90-X302	20.507	-	12,920	3,231	16,151	12,920	3,231	-
IN-90-X323	20.507	-	39,636	9,910	49,546	39,636	9,910	-
IN-90-X485	20.507	6,425	50,787	12,701	63,488	45,650	11,413	-
IN-90-X514	20.507	5,955	433,295	108,327	541,622	433,883	108,471	-
IN-90-X541	20.507	-	355,441	88,858	444,299	385,667	96,418	6,687
IN-90-X573	20.507	-	47,801	11,951	59,752	54,813	13,704	37,786
IN-90-X591	20.507	-	317	80	397	7,041	1,761	8,765
		<u>22,842</u>	<u>1,062,139</u>	<u>284,818</u>	<u>1,396,895</u>	<u>1,637,624</u>	<u>288,557</u>	<u>552,128</u>
		\$ 215,441	\$ 5,975,100	\$ 643,664	\$ 6,618,764	\$ 6,926,846	\$ 687,459	\$ 1,210,982

SOUTH BEND TRANSPORTATION CORPORATION  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2009

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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.



Crowe Horwath LLP  
Independent Member Crowe 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, 2009, 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.

Our consideration of the 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 that might be significant deficiencies or material weakness, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in

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the accompanying Schedule of Finding and Questioned Costs as Finding 2009-01 to be 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 May 13, 2010.

The Corporation's responses to the findings identified in our audit are 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 13, 2010



Crowe Horwath LLP  
Independent Member Crowe 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, 2009. 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 compliance, 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, 2009.

## 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses as defined above.

We noted certain matters that we reported to management of the Corporation in a separate letter dated May 13, 2010.

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 13, 2010

SOUTH BEND TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2009

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**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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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

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SOUTH BEND TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2009

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**Section II - Financial Statement Findings**

**Finding 2009-01 – Preparation of Financial Statements in Accordance with GAAP**

**Statement of Condition:** Statement on Auditing Standards (SAS) No. 115 *“Communicating Internal Control Related Matters Identified in an Audit”*, clarifies 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, we noted the following instances in which adjusting journal entries were required to correct misstatements in the financial statements. These misstatements have been considered material to the overall financial statement presentation.

- A receipt of \$100,000 from the State of Indiana in 2010 was recorded as though it was received in 2009. An audit adjustment was recorded to properly reflect cash and accounts receivable at the year-end date.
- Several checks written in 2010 were backdated to December 2009 and as a result, were inappropriately included in the outstanding check list at December 31, 2009. Audit adjustments to cash, accounts payable, and prepaid expenses were posted to correct the misstatement.

**Criteria:** As noted above, the auditing standards require management to implement controls and demonstrate the ability to produce the annual report, free of material misstatement, in accordance with GAAP.

**Effect:** Internal financial statements may not be presented consistent with GAAP. Additional business risk may be present since daily business decisions may be made based on inaccurate financial data.

**Cause:** The Corporation experienced turnover in key financial positions during the current year.

**Questioned Costs:** Not applicable.

**Recommendation:** Management should reconcile account balances on a monthly basis and these reconciliations should be reviewed by a knowledgeable individual. Special emphasis should be given to the handling and preparation of checks and cash receipts to ensure proper accounting treatment and cut-off.

SOUTH BEND TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2009

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**Finding 2009-01 – Preparation of Financial Statements in Accordance with GAAP**  
(Continued)

In addition, in an attempt to avoid backdating of checks in the future, we encourage management to discuss with IT staff the potential for making system upgrades to prevent manual overrides to check dates automatically generated within the system.

**Management Response:** We agree. Those checks and deposits related to 13<sup>th</sup> period activities and we completed after reconciliations were performed for the cash count. We will be developing an internal accounting policy to guard against this from occurring in the future.

**Section III - Federal Award Findings**

There were no findings for the year ended December 31, 2009.

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

**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 not 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.

**Status:** The Controller now prepares a reconciliation that is reviewed by the General Manager before the quarterly reports are submitted to assure accurate information is submitted. No compliance deficiencies were noted during the current year.