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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, 2010 to December 31, 2010. 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, 2010 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, 2010 and 2009

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
South Bend, Indiana

ANNUAL REPORT
December 31, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009 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 24, 2011 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 9 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, 2010 and 2009 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 statement of net assets of the Corporation as of December 31, 2008, 2007, 2006, 2005, 2004, 2003, 2002 and 2001 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 22 is fairly stated in all material respects in relation to the 2010,2009,2008,2007,2006,2005,2004,2003,2002 and 2001 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 audit 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 24, 2011

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2010 and 2009

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, 2010 and 2009. 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 2010 the Corporation's net assets increased by \$10,909,798. This change represents a 34% increase over the preceding year. This increase is due to funds received specifically for the construction of the new operations facility. The Corporation received \$14,971,972 of capital contributions from the Federal Transit Administration. The majority of this receipt was used for the purchase, Preventative Maintenance reimbursement and Construction expenses for the Corporation's new operations/maintenance and administrative facility.

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 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.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2010 and 2009

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.
- **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, 2010, the Corporation's total assets reached \$45,451,910. This represents an increase of \$11,894,064 or approximately 35% over the prior year. Total liabilities amounted to \$2,905,001. This represents an increase of \$984,266 or approximately 51% over the prior year. Consequently net assets reached \$42,546,909. This represents an increase of \$10,909,798 approximately 34% (see Table 1). The increase is primarily attributable to the change in capital assets and capital grants.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2010 and 2009

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.

Change in net assets. The change in net assets at December 31, 2010, was an increase of \$10,909,798. The Corporation's total operating revenues (expenses) increased by \$185,813 or approximately 13%. The Corporation's total non-operating revenues decreased by \$974,058 compared to the preceding fiscal year. This decrease represents approximately 12%. Total operating expenses increased by \$833,216 or approximately 7%. The changes in net assets are detailed in Table 2.

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.

- **Revenues:** During 2010, operating revenues principally fare revenues, increased by 13%. This is attributed to a fare increase that went into effect in April 2010. Non-operating revenues decreased by \$974,058 from the prior fiscal year. This decrease is primarily attributable to a decrease in Local property tax revenues and State PMTF 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.
- **Expenses:** During 2010, total operating expenses increased by 7% over the prior period. Excluding depreciation, operating expenses increased 7% which management primarily attributes to increase in health insurance and fuel expense.
- 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.
- **Capital contributions:** During fiscal year 2010 capital contributions increased by \$10,909,798 or 259%. This increase was primarily attributable to funds received specifically for the construction of the new operating facility.
- 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.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2010 and 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. As of December 31, 2010, the Corporation had invested \$36,116,076 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents an increase (including additions and disposals) of \$15,312,250,166 or 74% (see Table 3). This increase is primarily attributed to the construction of the new operations facility.

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.

Long-term debt. As of December 31, 2010 and 2009, 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 2011 budget. Through marketing, operations, and other community efforts, the Corporation anticipates increased ridership during the fiscal year 2011.

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, 1401 S. Lafayette Blvd., South Bend, Indiana 46613.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NET ASSETS

TABLE 1
Years ended December 31, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>Percentage Change 2010 vs. 2009</u>	<u>2008</u>	<u>Percentage Change 2009 vs. 2008</u>
Assets:					
Current assets	\$ 5,422,768	\$ 8,498,094	-36%	\$ 9,090,922	-7%
Other assets	3,913,066	4,255,926	-8%	4,345,205	-2%
Capital assets (net)	<u>36,116,076</u>	<u>20,803,826</u>	<u>74%</u>	<u>17,537,730</u>	<u>19%</u>
Total assets	<u>\$ 45,451,910</u>	<u>\$ 33,557,846</u>	<u>35%</u>	<u>\$ 30,973,857</u>	<u>8%</u>
Liabilities:					
Current liabilities	<u>\$ 2,905,001</u>	<u>\$ 1,920,735</u>	<u>51%</u>	<u>\$ 1,101,361</u>	<u>74%</u>
Total liabilities	<u>\$ 2,905,001</u>	<u>\$ 1,920,735</u>	<u>51%</u>	<u>\$ 1,101,361</u>	<u>74%</u>
Net assets:					
Invested in capital assets net of related debt	\$ 36,116,076	\$ 20,803,826	74%	\$ 17,537,730	19%
Unrestricted	<u>6,430,833</u>	<u>10,833,285</u>	<u>-41%</u>	<u>12,334,766</u>	<u>-12%</u>
Total net assets	<u>\$ 42,546,909</u>	<u>\$ 31,637,111</u>	<u>34%</u>	<u>\$ 29,872,496</u>	<u>6%</u>

(Continued)

**SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
CHANGES IN NET ASSETS**

TABLE 2

Years ended December 31, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>Percentage Change 2010 vs. 2009</u>	<u>2008</u>	<u>Percentage Change 2009 vs. 2008</u>
Operating revenues:					
Passenger fares	\$ 1,390,353	\$ 1,210,020	15%	\$ 1,508,793	-20%
Special services	-	-	0%	12,411	-100%
Advertising	54,000	74,160	-27%	70,000	6%
Miscellaneous	190,033	164,393	16%	227,144	-28%
	<u>1,634,386</u>	<u>1,448,573</u>	<u>13%</u>	<u>1,818,348</u>	<u>-20%</u>
Operating expenses:					
Labor	5,119,825	5,163,055	-1%	5,212,627	-1%
Fringe benefits	1,759,032	1,577,102	12%	1,227,796	28%
Services	1,185,958	927,258	28%	975,817	-5%
Materials and supplies	1,539,324	1,387,245	11%	1,987,485	-30%
Utilities	246,092	236,757	4%	222,979	6%
Insurance	177,844	286,238	-38%	239,951	19%
Dues and subscriptions	28,158	25,495	10%	20,666	23%
Travel and meetings	10,991	15,925	-31%	26,120	-39%
Advertising and promotion	12,846	15,151	-15%	39,376	-62%
Depreciation	2,392,607	2,251,127	6%	2,274,118	-1%
Other	246,184	292	84210%	249,587	-100%
	<u>12,718,861</u>	<u>11,885,645</u>	<u>7%</u>	<u>12,476,522</u>	<u>-5%</u>
Operating loss	(11,084,475)	(10,437,072)	6%	(10,658,174)	-2%
Net nonoperating revenues (expenses):					
Investment interest	17,828	14,791	21%	135,042	-89%
Local government assessments and taxes	3,046,565	3,478,936	-12%	4,388,226	-21%
Federal grants and reimbursements	1,535,769	1,599,293	-4%	1,406,098	14%
State operating grants	2,683,523	2,889,233	-7%	2,778,496	4%
Other	(261,384)	14,106	-1953%	(96,059)	0%
	<u>7,022,301</u>	<u>7,996,359</u>	<u>-12%</u>	<u>8,611,803</u>	<u>-7%</u>
Net loss before capital contributions	(4,062,174)	(2,440,713)	66%	(2,046,371)	19%
Capital contributions	14,971,972	4,205,328	256%	1,192,826	253%
Change in net assets	10,909,798	1,764,615	518%	(853,545)	-307%
Net assets, beginning of year	31,637,111	29,872,496	6%	30,726,041	-3%
Net assets, end of year	\$ 42,546,909	\$ 31,637,111	34%	\$ 29,872,496	6%

(Continued)

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

TABLE 3

Years ended December 31, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>Percentage Change 2010 vs. 2009</u>	<u>2008</u>	<u>Percentage Change 2009 vs. 2008</u>
Land	\$ 3,054,306	\$ 3,054,306	0%	\$ 3,330,815	-8%
Land- New Ops Center	146,991	54,176	171%	43,434	25%
Construction in progress - new building	-	6,304,973	-100%	1,328,764	374%
Buildings and structures	25,446,584	4,141,330	514%	4,162,151	-1%
Revenue equipment	5,573,485	7,045,998	-21%	8,439,441	-17%
Other service equipment	70,428	65,221	8%	101,558	-36%
Shop and garage equipment	1,231,454	75,367	1534%	70,205	7%
Office equipment	592,828	62,455	849%	61,362	2%
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets	<u>\$ 36,116,076</u>	<u>\$ 20,803,826</u>	<u>74%</u>	<u>\$ 17,537,730</u>	<u>19%</u>

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 STATEMENTS OF NET ASSETS
 December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash (Note 1)	\$ 3,060,612	\$ 6,295,407
Accounts receivable – services	35,901	55,189
Accounts receivable – federal grant	1,203,094	1,120,076
Accounts receivable – state and local assistance	303,767	137,614
Accounts receivable – other	400	420
Lease receivable, current (Note 2)	400,000	500,000
Inventory - parts and supplies (Note 1)	274,477	283,960
Assets held for others	135,389	-
Prepaid expenses	<u>9,128</u>	<u>105,428</u>
Total current assets	5,422,768	8,498,094
Net pension asset (Note 8)	367,861	310,721
Lease receivable, non-current (Note 2)	3,545,205	3,945,205
Capital assets not being depreciated (Note 3)	3,054,306	9,413,455
Capital assets being depreciated, net (Note 3)	<u>33,061,770</u>	<u>11,390,371</u>
Total assets	<u>\$ 45,451,910</u>	<u>\$ 33,557,846</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,320,915	\$ 1,330,643
Accrued payroll	92,513	77,932
Due to FTA (Note 1)	236,004	-
Accrued compensated absences (Note 1)	298,076	292,738
Construction retention payable	376,554	-
Assets held for others	135,389	-
Other liabilities	<u>445,550</u>	<u>219,422</u>
Total liabilities	2,905,001	1,920,735
Net assets		
Invested in capital assets	36,116,076	20,803,826
Unrestricted	<u>6,430,833</u>	<u>10,833,285</u>
Total net assets	<u>42,546,909</u>	<u>31,637,111</u>
Total liabilities and net assets	<u>\$ 45,451,910</u>	<u>\$ 33,557,846</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenue		
Passenger fares	\$ 1,390,353	\$ 1,210,020
Advertising	54,000	74,160
Miscellaneous	190,033	164,393
Total operating revenue	<u>1,634,386</u>	<u>1,448,573</u>
Operating expense		
Labor	5,119,825	5,163,055
Fringe benefits	1,759,032	1,577,102
Services	1,185,958	927,258
Materials and supplies	1,539,324	1,387,245
Utilities	246,092	236,757
Insurance	177,844	286,238
Dues and subscriptions	28,158	25,495
Travel and meetings	10,991	15,925
Advertising and promotion	12,846	15,151
Depreciation	2,392,607	2,251,127
Other	246,184	292
Total operating expenses	<u>12,718,861</u>	<u>11,885,645</u>
Operating loss	(11,084,475)	(10,437,072)
Nonoperating revenues		
Investment interest	17,828	14,791
Gain (Loss) on sale of capital assets	(261,384)	14,106
Local government assessments and taxes	3,046,565	3,478,936
Federal grants and reimbursements	1,535,769	1,599,293
State operating grants	2,683,523	2,889,233
Total nonoperating revenues	<u>7,022,301</u>	<u>7,996,359</u>
Net loss before capital contributions	(4,062,174)	(2,440,713)
Capital contributions - grants	<u>14,971,972</u>	<u>4,205,328</u>
Change in net assets	10,909,798	1,764,615
Net assets, beginning of year	<u>31,637,111</u>	<u>29,872,496</u>
Net assets, end of year	<u>\$ 42,546,909</u>	<u>\$ 31,637,111</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Receipts from passengers	\$ 1,599,674	\$ 1,364,229
Receipts from leased operations	500,000	300,000
Receipts from other operations	54,000	74,160
Payments to employees	(5,099,906)	(5,188,160)
Payments for fringe benefits	(1,816,172)	(1,600,484)
Payments for services	(982,795)	(926,550)
Payments for materials and supplies	<u>(1,529,841)</u>	<u>(1,461,752)</u>
Net cash used by operating activities	(7,275,040)	(7,438,557)
Cash flows from noncapital financing activities		
Receipts of local government assessments and taxes	3,046,565	3,478,936
Receipts of federal and state government grants and reimbursements	<u>3,970,121</u>	<u>6,095,020</u>
Net cash provided by noncapital financing activities	7,016,686	9,573,956
Cash flows from capital and related financing activities		
Acquisition of capital assets	(18,004,684)	(5,804,189)
Proceeds from the sale of assets	38,443	1,057,540
Capital contributions - grants	<u>14,971,972</u>	<u>4,205,328</u>
Net cash used by capital and related financing activities	(2,994,269)	(541,321)
Cash flows from investing activities		
Interest income	<u>17,828</u>	<u>14,912</u>
Net cash provided by investing activities	<u>17,828</u>	<u>14,912</u>
Net change in cash and cash equivalents	(3,234,795)	1,608,990
Cash and cash equivalents at beginning of year	<u>6,295,407</u>	<u>4,686,417</u>
Cash and cash equivalents at end of year	<u>\$ 3,060,612</u>	<u>\$ 6,295,407</u>
Supplemental disclosure of non-cash transactions		
Construction in progress included in accounts payable	\$ 376,554	\$ 756,468
Receipt of vehicles from Madison Center	135,389	-

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash provided (used) by operating activities	\$ (11,084,475)	\$ (10,437,072)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	2,392,607	2,251,127
Change in assets and liabilities		
Accounts receivable	19,308	(10,549)
Lease receivable	500,000	300,000
Inventory	9,483	(74,507)
Net pension asset	(57,140)	(23,382)
Prepaid expense	96,300	243,331
Accounts payable	(9,728)	319,785
Due to FTA	236,004	-
Accrued payroll	14,581	(21,029)
Accrued compensated absences	5,338	(4,076)
Other liabilities	<u>602,682</u>	<u>17,815</u>
Net cash used by operating activities	<u>\$ (7,275,040)</u>	<u>\$ (7,438,557)</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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.

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.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

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 \$2,995,214 and \$6,608,972 deposited in local banks at December 31, 2010 and 2009, which is fully insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposits Insurance Fund.

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 consist 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. In 2010, the Corporation re-acquired the vehicles from the Madison Center and valued the vehicles at \$135,389. These vehicles will be distributed to other FTA grant recipients during 2011.

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.

Due to FTA: Due to FTA consists of assets sold during the year that were originally purchased with FTA grant monies. Amount is calculated as 80% of net book value of the assets disposed.

Property Tax Calendar: Property taxes for the 2010 tax levy were attached as an enforceable lien on properties as of March 1, 2010; these taxes were levied in January 2010, by the passage of a tax ordinance. Tax bills were prepared by St. Joseph County and were issued in April 2010 and October 2010 and payable in May 2010 and December 2010.

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.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

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.

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>2010</u>	<u>2009</u>
<u>Statements of Cash Flows</u>		
Cash and cash equivalents at end of year	<u>\$ 3,060,612</u>	<u>\$ 6,295,407</u>
<u>Statements of Net Assets</u>		
Cash	<u>\$ 3,060,612</u>	<u>\$ 6,295,407</u>
	<u>\$ 3,060,612</u>	<u>\$ 6,295,407</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, 2010 and 2009, 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.

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, 2010 and 2009, respectively.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - LEASE RECEIVABLES (Continued)

At December 31, 2010 and 2009, the outstanding balance of the two lease receivables was \$3,945,205 and \$4,445,205, respectively.

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

2011	\$ 400,000
2012	400,000
2013	400,000
2014	400,000
2015	400,000
2016-2025	<u>1,945,205</u>
	3,945,205
Less: Current portion	<u>400,000</u>
Long-term portion	<u>\$ 3,545,205</u>

NOTE 3 - CAPITAL ASSETS

Following is the rollforward for the Corporation's capital assets for 2010 and 2009:

Description	Balance at Jan. 1, 2010	Additions	Deletions	Balance at Dec. 31, 2010
Capital assets not being depreciated:				
Land	\$ 3,054,306	\$ -	\$ -	\$ 3,054,306
Land improvements - new OPS - CIP	54,176	93,394	(147,570)	-
Construction in progress - new building	<u>6,304,973</u>	<u>15,688,353</u>	<u>(21,993,326)</u>	<u>-</u>
Total capital assets not being depreciated	<u>\$ 9,413,455</u>	<u>\$ 15,781,747</u>	<u>\$ (22,140,896)</u>	<u>\$ 3,054,306</u>
Capital assets being depreciated:				
Land improvements	\$ -	\$ 147,570	\$ -	\$ 147,570
Buildings and improvements	9,941,659	22,050,714	(2,348,429)	29,643,944
Revenue vehicles and equipment	19,143,932	278,314	(9,000)	19,413,246
Service vehicles and equipment	397,859	43,720	(112,370)	329,209
Shop and garage equipment	582,781	1,247,582	(404,349)	1,426,014
Furniture and office equipment	<u>436,276</u>	<u>595,930</u>	<u>(262,515)</u>	<u>769,691</u>
Subtotal	30,502,507	24,363,830	(3,136,663)	51,729,674
Less accumulated depreciation for:				
Land- Improvements	-	(579)	-	(579)
Buildings and improvements	(5,800,329)	(475,066)	2,078,035	(4,197,360)
Revenue vehicles and equipment	(12,097,934)	(1,748,027)	6,200	(13,839,761)
Service vehicles and equipment	(332,638)	(37,810)	111,667	(258,781)
Shop and garage equipment	(507,414)	(69,826)	382,680	(194,560)
Furniture and office equipment	<u>(373,821)</u>	<u>(61,299)</u>	<u>258,257</u>	<u>(176,863)</u>
Total accumulated depreciation	<u>(19,112,136)</u>	<u>(2,392,607)</u>	<u>2,836,839</u>	<u>(18,667,904)</u>
Total capital assets being depreciated, net	<u>\$ 11,390,371</u>	<u>\$ 21,971,223</u>	<u>\$ (299,824)</u>	<u>\$ 33,061,770</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 3 - CAPITAL ASSETS (Continued)

<u>Description</u>	<u>Balance at Jan. 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Dec. 31, 2009</u>
Capital assets not being depreciated:				
Land	\$ 3,330,815	\$ 723,491	\$ (1,000,000)	\$ 3,054,306
Land improvements - new OPS (CIP)	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>

Construction of the Corporation's new operating/maintenance and administrative facility began in 2009. Actual costs incurred on the contract to construct this facility through December 31, 2010 were \$21.9 million. The facility was placed in service during November 2010.

NOTE 4 - STATE, LOCAL AND FEDERAL ASSISTANCE

State, local and federal assistance is as follows:

	<u>2010</u>	<u>2009</u>
Federal preventive maintenance assistance grant (Note 5)	\$ 1,535,769	\$ 1,599,293
Property tax appropriation	2,445,397	2,608,192
Other tax appropriations	601,168	870,744
State operating assistance grant (Note 6)	<u>2,683,523</u>	<u>2,889,233</u>
	<u>\$ 7,265,857</u>	<u>\$ 7,967,462</u>

In addition, the Corporation received \$14,971,972 and \$4,205,328 of federal capital contribution grants for the years ended December 31, 2010 and 2009, respectively.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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, 2010 and 2009 of \$1,535,769 and \$1,599,293. As of December 31, 2010 and 2009 there was \$341,320 and \$314,296, 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, 2010 and 2009 was \$2,683,523 and \$2,889,233. As of December 31, 2010 and 2009, there were no outstanding receivables from the State of Indiana for operating assistance.

NOTE 7 - CAPITAL CONTRIBUTIONS - GRANTS

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

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - EMPLOYEE PENSION PLAN (Continued)

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.

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, 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, 2010 and 2009, the Corporation's annual pension cost (APC), including amortization of past service cost over 20 years, was \$175,680 and \$221,003, respectively. The Corporation's contributions totaled \$232,820 and \$244,385 for the years ending 2010 and 2009, respectively. The participant's contributions totaled \$123,881 and \$143,696 for the years ending 2010 and 2009, 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, 2011 has been performed to determine the required contribution for the 2011 year.

The following represents the significant components of the APC and changes in net pension asset during the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Annual required contribution (ARC)	\$ 169,398	\$ 215,194
Interest on net pension asset	(20,197)	(18,677)
Adjustment to ARC	<u>26,479</u>	<u>24,486</u>
Annual pension cost (APC)	175,680	221,003
Contributions made	<u>232,820</u>	<u>244,385</u>
Increase in net pension asset	57,140	23,382
Net pension asset – beginning of year	<u>310,721</u>	<u>287,339</u>
Net pension asset – end of year	<u>\$ 367,861</u>	<u>\$ 310,721</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010 and 2009

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>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Over (Under) Funded AAL</u>	<u>Covered Payroll</u>	<u>UAAL as Percentage of Covered Payroll</u>
2010	\$ 6,331	\$ 7,355	86.00%	\$ (1,024)	\$ 4,803	(21.30)%
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 \$253,718 and \$243,028 in 2010 and 2009. 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:

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, 2010 and 2009, 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 exceed the maximum self-insurance rate of \$100,000. This amount has been booked in the Corporation's financial statements.

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, 2010

Year	Passenger Revenue	Charter Revenue	Non-operating Assistance	Other Revenue	Total Revenues	Operating Expenses	Surplus Before Depreciation	Depreciation	Net Surplus (Deficit)
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)
2010	1,390,353	-	7,022,301	244,033	8,656,687	10,326,254	(1,669,567)	2,392,607	(4,062,174)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended December 31, 2010

Federal Grantor/ Grant Number	Federal CFDA Number	Federal Expenditure
U.S. Department of Transportation:		
Federal Transportation Administration		
Preventive Maintenance:		
IN-90-X591 (2009)	20.507	\$ 33,316
IN-90-X607 (2010)	20.507	1,503,823
Capital Assistance:		
IN-04-0007	20.507	982,357
IN-04-0011	20.507	1,100,640
IN-04-0017	20.507	1,974,230
IN-04-0035	20.507	1,082,932
IN-03-0083	20.507	4,582,502
IN-90-X133	20.507	2,914,431
IN-90-X514	20.507	283,625
IN-90-X541	20.507	488,035
IN-90-X573	20.507	761,512
IN-90-X591	20.507	739,939
IN-90-X607	20.507	<u>35,332</u>
Total Expenditure of Federal Awards		<u>\$ 16,482,674</u>

See accompanying notes to the schedule of
 expenditures of federal awards.

SOUTH BEND TRANSPORTATION CORPORATION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2010

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.

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, 2010, 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, and the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, 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*.

(Continued)

This report is intended solely for the information and use of the Board of Directors, management, the Indiana State Board of Accounts, 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 24, 2011

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal program for the year ended December 31, 2010. 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. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

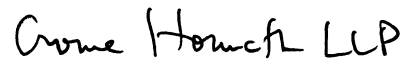
Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

(Continued)

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of the Board of Directors, management, the Indiana State Board of Accounts, 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

South Bend, Indiana
May 24, 2011

SOUTH BEND TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

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? Yes X 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: \$494,480

Auditee qualified as low-risk auditee? Yes X No

(Continued)

SOUTH BEND TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

Section II - Financial Statement Findings

There were no findings for the year ended December 31, 2010.

Section III - Federal Award Findings

There were no findings for the year ended December 31, 2010.

SOUTH BEND TRANSPORTATION CORPORATION
SCHEDULE OF PRIOR YEAR FINDINGS
Year ended December 31, 2010

Section IV – Prior Year Findings and Questioned Costs

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.

Status: Resolved.