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February 11, 2016

Board of Directors  
South Bend Public Transportation Corporation  
1401 South Lafayette Blvd  
South Bend, IN 46613

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. 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 South Bend Public Transportation Corporation, as of December 31, 2011 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

A handwritten signature in cursive script that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner

**SOUTH BEND PUBLIC  
TRANSPORTATION CORPORATION**

**ANNUAL REPORT**

December 31, 2011 and 2010

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
South Bend, Indiana

ANNUAL REPORT  
December 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS ON 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, 2011 and 2010, 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 financial statements. These 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010 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 our report dated May 30, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling other information directly to the underlying accounting and such records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana  
May 30, 2012

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2011 and 2010

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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, 2011 and 2010. 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 forty nine (49) 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 fourteen (14) 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 2011 the Corporation's net assets decreased by \$3,131,109. This change represents a 7% decrease over the preceding year. This decrease is due to completion of the new operations facility in 2010 resulting in an entire year's worth of depreciation recognized in 2011 for this project and increases in operating expenses. The Corporation received \$1,099,359 of capital contributions from the Federal Transit Administration. The majority of these monies related to final construction payments for the new operations facility.

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.

## **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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2011 and 2010

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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, 2011, the Corporation's total assets reached \$40,731,355. This represents a decrease of \$4,720,575 or approximately 10% over the prior year. Total liabilities amounted to \$1,315,535. This represents a decrease of \$1,589,466 or approximately 55% over the prior year. Consequently net assets reached \$39,415,800. This represents a decrease of \$3,131,109 or approximately 7% (see Table 1). The decrease is primarily attributable to the change in capital assets and capital grants.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2011 and 2010

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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

**Change in net assets.** The change in net assets at December 31, 2011, was a decrease of \$3,131,109. The Corporation's total operating revenues (expenses) increased by \$26,392 or approximately 2%. The Corporation's total non-operating revenues increased by \$238,467 compared to the preceding fiscal year. This increase represents approximately 3%. Total operating expenses increased by \$433,153 or approximately 3%. The changes in net assets are detailed in Table 2.

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.

- **Revenues:** During 2011, operating revenues, principally fare revenues, increased by 2%. This is attributed to a fare increase being in effect for an entire year and increases in rent our South Street Station Transfer facility. Non-operating revenues increase by \$238,467 from the prior fiscal year. This increase is primarily attributable to a small increase in Local property tax 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.

- **Expenses:** During 2011, total operating expenses increased by 3% over the prior period. Excluding depreciation, operating expenses increased 3% which management primarily attributes to increase in health insurance and fuel expense.

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.

- **Capital contributions:** During fiscal year 2011 capital contributions decreased by \$13,872,613 or 93%. This decrease was primarily attributable to completion of new operations facility in 2010.

During fiscal year 2010 capital contributions increased by \$10,766,644 or 256%. This increase was primarily attributable to funds received specifically for the construction of the new operating facility.

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SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
Years ended December 31, 2011 and 2010

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** As of December 31, 2011, the Corporation had invested \$34,373,881 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents a decrease (including additions and disposals) of \$1,742,195 or 5% (see Table 3). This decrease is primarily attributed to the depreciation of the new operations facility.

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 or 74% (see Table 3). This increase is primarily attributed to the construction of the new operations facility.

**Long-term debt.** As of December 31, 2011 and 2010, 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 decrease in both total revenues and total expenditures which have been incorporated into the fiscal year 2012 budget. These decreases are due to changes in our current fixed route service area that will be taking effect on April 2, 2012. These changes are needed due to any increases that TRANSPO may receive in local and state funding do not match any increases in labor, health insurance and fuel expenses.

**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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NET ASSETS  
TABLE 1  
Years ended December 31, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>Percentage Change 2011 vs. 2010</u>	<u>2009</u>	<u>Percentage Change 2010 vs. 2009</u>
<b>Assets:</b>					
Current assets	\$ 2,821,078	\$ 5,422,768	-48%	\$ 8,498,094	-36%
Other assets	3,536,376	3,913,066	-10%	4,255,926	-8%
Capital assets (net)	<u>34,373,881</u>	<u>36,116,076</u>	<u>-5%</u>	<u>20,803,826</u>	<u>74%</u>
Total assets	<u>\$ 40,731,335</u>	<u>\$ 45,451,910</u>	<u>-10%</u>	<u>\$ 33,557,846</u>	<u>35%</u>
<b>Liabilities:</b>					
Current liabilities	\$ 1,315,535	\$ 2,905,001	-55%	\$ 1,920,735	51%
Total liabilities	<u>\$ 1,315,535</u>	<u>\$ 2,905,001</u>	<u>-55%</u>	<u>\$ 1,920,735</u>	<u>51%</u>
<b>Net assets:</b>					
Invested in capital assets net of related debt	\$ 34,373,881	\$ 36,116,076	-5%	\$ 20,803,826	74%
Unrestricted	<u>5,041,919</u>	<u>6,430,833</u>	<u>-22%</u>	<u>10,833,285</u>	<u>-41%</u>
Total net assets	<u>\$ 39,415,800</u>	<u>\$ 42,546,909</u>	<u>-7%</u>	<u>\$ 31,637,111</u>	<u>34%</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
CHANGES IN NET ASSETS

TABLE 2  
Years ended December 31, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>Percentage Change 2011 vs. 2010</u>	<u>2009</u>	<u>Percentage Change 2010 vs. 2009</u>
<b>Operating revenues:</b>					
Passenger fares	\$ 1,401,657	\$ 1,390,353	1%	\$ 1,210,020	15%
Advertising	54,300	54,000	1%	74,160	-27%
Miscellaneous	204,821	190,033	8%	164,393	16%
<b>Total operating revenues</b>	<b>1,660,778</b>	<b>1,634,386</b>	<b>2%</b>	<b>1,448,573</b>	<b>13%</b>
<b>Operating expenses:</b>					
Labor	5,253,795	5,119,825	3%	5,163,055	-1%
Fringe benefits	1,790,020	1,759,032	2%	1,577,102	12%
Services	1,083,638	1,185,958	-9%	927,258	28%
Materials and supplies	2,064,405	1,539,324	34%	1,387,245	11%
Utilities	185,853	246,092	-24%	236,757	4%
Insurance	215,208	177,844	21%	286,238	-38%
Dues and subscriptions	25,284	28,158	-10%	25,495	10%
Travel and meetings	10,944	10,991	0%	15,925	-31%
Advertising and promotion	6,218	12,846	-52%	15,151	-15%
Depreciation	2,516,648	2,392,607	5%	2,251,127	6%
Other	-	246,184	-100%	292	84210%
<b>Total operating expenses</b>	<b>13,152,013</b>	<b>12,718,861</b>	<b>3%</b>	<b>11,885,645</b>	<b>7%</b>
<b>Operating loss</b>	<b>(11,491,235)</b>	<b>(11,084,475)</b>	<b>4%</b>	<b>(10,437,072)</b>	<b>6%</b>
<b>Net nonoperating revenues (expenses):</b>					
Investment interest	2,778	17,828	-84%	14,791	21%
Local government assessments and taxes	3,218,325	3,046,565	6%	3,478,936	-12%
Federal grants and reimbursements	1,519,715	1,535,769	-1%	1,599,293	-4%
State operating grants	2,499,114	2,683,523	-7%	2,889,233	-7%
Other	20,835	(261,384)	0%	14,106	-1953%
<b>Total nonoperating revenues (expenses)</b>	<b>7,260,767</b>	<b>7,022,301</b>	<b>3%</b>	<b>7,996,359</b>	<b>-12%</b>
<b>Net loss before capital contributions</b>	<b>(4,230,468)</b>	<b>(4,062,174)</b>	<b>4%</b>	<b>(2,440,713)</b>	<b>66%</b>
Capital contributions	1,099,359	14,971,972	-93%	4,205,328	256%
<b>Change in net assets</b>	<b>(3,131,109)</b>	<b>10,909,798</b>	<b>-129%</b>	<b>1,764,615</b>	<b>518%</b>
Net assets, beginning of year	42,546,909	31,637,111	34%	29,872,496	6%
<b>Net assets, end of year</b>	<b>\$ 39,415,800</b>	<b>\$ 42,546,909</b>	<b>-7%</b>	<b>\$ 31,637,111</b>	<b>34%</b>

(Continued)

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

TABLE 3  
 Years ended December 31, 2011, 2010 and 2009

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	<u>2011</u>	<u>2010</u>	<u>Percentage Change 2011 vs. 2010</u>	<u>2009</u>	<u>Percentage Change 2010 vs. 2009</u>
Land	\$ 3,054,306	\$ 3,054,306	0	\$ 3,054,306	0%
Land- New Ops Center	143,302	146,991	-3%	54,176	171%
Construction in progress - new building	-	-	0%	6,304,973	0%
Buildings and structures	25,126,270	25,446,584	-1%	4,141,330	514%
Revenue equipment	4,218,062	5,573,485	-24%	7,045,998	-21%
Other service equipment	43,652	70,428	-38%	65,221	8%
Shop and garage equipment	1,014,043	1,231,454	-18%	75,367	1534%
Office equipment	628,599	592,828	6%	62,455	849%
Transit Studies	145,647	-	0%	-	0%
<b>Total capital assets</b>	<b>\$ 34,373,881</b>	<b>\$ 36,116,076</b>	<b>-5%</b>	<b>\$ 20,803,826</b>	<b>74%</b>

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SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
STATEMENTS OF NET ASSETS  
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 1)	\$ 1,731,509	\$ 3,060,612
Accounts receivable – services	66,669	35,901
Accounts receivable – federal grant	248,102	1,203,094
Accounts receivable – state and local assistance	2,000	303,767
Accounts receivable – other	-	400
Lease receivable, current (Note 2)	400,000	400,000
Inventory - parts and supplies (Note 1)	341,924	274,477
Assets held for others	-	135,389
Prepaid expenses	30,874	9,128
Total current assets	2,821,078	5,422,768
Net pension asset (Note 5)	391,171	367,861
Lease receivable, non-current (Note 2)	3,145,205	3,545,205
Capital assets not being depreciated (Note 3)	3,054,306	3,054,306
Capital assets being depreciated, net (Note 3)	31,319,575	33,061,770
Total assets	\$ 40,731,335	\$ 45,451,910
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 322,723	\$ 1,320,915
Accrued payroll	113,654	92,513
Due to FTA (Note 1)	236,004	236,004
Accrued compensated absences (Note 1)	271,912	298,076
Construction retention payable	-	376,554
Assets held for others	-	135,389
Other liabilities	371,242	445,550
Total liabilities	1,315,535	2,905,001
Net assets		
Invested in capital assets	34,373,881	36,116,076
Unrestricted	5,041,919	6,430,833
Total net assets	39,415,800	42,546,909
Total liabilities and net assets	\$ 40,731,335	\$ 45,451,910

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Operating revenue</b>		
Passenger fares	\$ 1,401,657	\$ 1,390,353
Advertising	54,300	54,000
Miscellaneous	<u>204,821</u>	<u>190,033</u>
Total operating revenue	1,660,778	1,634,386
<b>Operating expense</b>		
Labor	5,253,795	5,119,825
Fringe benefits	1,790,020	1,759,032
Services	1,083,638	1,185,958
Materials and supplies	2,064,405	1,539,324
Utilities	185,853	246,092
Insurance	215,208	177,844
Dues and subscriptions	25,284	28,158
Travel and meetings	10,944	10,991
Advertising and promotion	6,218	12,846
Depreciation	2,516,648	2,392,607
Other	-	<u>246,184</u>
Total operating expenses	<u>13,152,013</u>	<u>12,718,861</u>
<b>Operating loss</b>	(11,491,235)	(11,084,475)
<b>Nonoperating revenues</b>		
Investment interest	2,778	17,828
Gain or (loss) on sale of net assets	20,835	(261,384)
Local government assessments and taxes	3,218,325	3,046,565
Federal grants and reimbursements	1,519,715	1,535,769
State operating grants	<u>2,499,114</u>	<u>2,683,523</u>
Total nonoperating revenues	<u>7,260,767</u>	<u>7,022,301</u>
<b>Net loss before capital contributions</b>	(4,230,468)	(4,062,174)
Capital contributions - grants	<u>1,099,359</u>	<u>14,971,972</u>
<b>Change in net assets</b>	(3,131,109)	10,909,798
Net assets, beginning of year	<u>42,546,909</u>	<u>31,637,111</u>
<b>Net assets, end of year</b>	<u>\$ 39,415,800</u>	<u>\$ 42,546,909</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities</b>		
Receipts from passengers	\$ 1,575,710	\$ 1,599,674
Receipts from leased operations	400,000	500,000
Receipts from other operations	54,300	54,000
Payments to employees	(5,258,818)	(5,099,906)
Payments for fringe benefits	(1,813,330)	(1,816,172)
Payments for services	(2,997,544)	(982,795)
Payments for materials and supplies	<u>(2,131,852)</u>	<u>(1,529,841)</u>
Net cash used by operating activities	(10,171,534)	(7,275,040)
<b>Cash flows from noncapital financing activities</b>		
Receipts of local government assessments and taxes	3,218,325	3,046,565
Receipts of federal and state government grants and reimbursements	<u>5,275,588</u>	<u>3,970,121</u>
Net cash provided by noncapital financing activities	8,493,913	7,016,686
<b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(774,453)	(18,004,684)
Proceeds from the sale of assets	20,834	38,443
Capital contributions - grants	<u>1,099,359</u>	<u>14,971,972</u>
Net cash provided (used) by capital and related financing activities	345,740	(2,994,269)
<b>Cash flows from investing activities</b>		
Interest income	<u>2,778</u>	<u>17,828</u>
Net cash provided by investing activities	<u>2,778</u>	<u>17,828</u>
<b>Net change in cash and cash equivalents</b>	(1,329,103)	(3,234,795)
Cash and cash equivalents at beginning of year	<u>3,060,612</u>	<u>6,295,407</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,731,509</u>	<u>\$ 3,060,612</u>
<b>Supplemental disclosure of non-cash transactions</b>		
Construction in progress included in accounts payable	\$ -	\$ 376,554
Receipt of vehicles from Madison Center	-	135,389

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
STATEMENTS OF CASH FLOWS  
Years ended December 31, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities</b>	\$ (11,491,235)	\$ (11,084,475)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	2,516,648	2,392,607
Change in assets and liabilities		
Accounts receivable	(30,368)	19,308
Lease receivable	400,000	500,000
Inventory	(67,447)	9,483
Net pension asset	(23,310)	(57,140)
Prepaid expense	(21,745)	96,300
Accounts payable	(998,192)	(9,728)
Due to FTA	-	236,004
Accrued payroll	21,141	14,581
Accrued compensated absences	(26,164)	5,338
Other liabilities	<u>(450,862)</u>	<u>602,682</u>
Net cash used by operating activities	<u>\$ (10,171,534)</u>	<u>\$ (7,275,040)</u>

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See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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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.

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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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**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 \$1,979,711 and \$2,995,214 deposited in local banks at December 31, 2011 and 2010, 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 were 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 2011 tax levy were attached as an enforceable lien on properties as of March 1, 2011; these taxes were levied in January 2011, by the passage of a tax ordinance. Tax bills were prepared by St. Joseph County and were issued in April 2011 and October 2011 and payable in May 2011 and December 2011.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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

For purposes of collecting property taxes from taxpayers, the 2010 tax levy was 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 and October, 2010 and payable in May and December, 2010. The County collects such taxes and remits them periodically to the Corporation.

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.

**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 performs all management functions and pays the Corporation \$200,000 per year, with no interest, and a percentage of the parking revenues over expenses. There were no additional payments for excess parking revenues to the Corporation for years ended December 31, 2011 and 2010, 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 performs all management functions and pays the Corporation \$200,000 per year, with no interest and a percentage of the parking revenues over expenses. There were no additional payments for excess parking revenues to the Corporation for years ended December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, the outstanding balance of the two lease receivables was \$3,545,205 and \$3,945,205, respectively.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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

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

2012	\$ 400,000
2013	400,000
2014	400,000
2015	400,000
2016	200,000
2017-2025	<u>1,745,205</u>
	3,545,000
Less: Current portion	<u>400,000</u>
Long-term portion	<u>\$ 3,145,205</u>

**NOTE 3 - CAPITAL ASSETS**

Following is the rollforward for the Corporation's capital assets for 2011 and 2010:

<u>Description</u>	Balance at <u>Jan. 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>Dec. 31, 2011</u>
Capital assets not being depreciated:				
Land	\$ 3,054,306	\$ -	\$ -	\$ 3,054,306
Total capital assets not being depreciated	<u>\$ 3,054,306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,054,306</u>
Capital assets being depreciated:				
Land improvements	\$ 147,570	\$ -	\$ -	\$ 147,570
Buildings and improvements	29,643,944	243,787	-	29,887,731
Revenue vehicles and equipment	19,413,246	97,822	(720,015)	18,791,053
Service vehicles and equipment	329,209	-	-	329,209
Shop and garage equipment	1,426,014	54,694	-	1,480,708
Transit studies	-	169,570	-	169,570
Furniture and office equipment	<u>769,691</u>	<u>208,580</u>	-	<u>978,271</u>
Subtotal	51,729,674	774,453	(720,015)	51,784,112
Less accumulated depreciation for:				
Land-improvements	(579)	(3,689)	-	(4,268)
Buildings and improvements	(4,197,360)	(564,101)	-	(4,761,461)
Revenue vehicles and equipment	(13,839,761)	(1,453,245)	720,015	(14,572,991)
Service vehicles and equipment	(258,781)	(26,776)	-	(285,557)
Shop and garage equipment	(194,560)	(272,105)	-	(466,665)
Transit studies	-	(23,923)	-	(23,923)
Furniture and office equipment	<u>(176,863)</u>	<u>(172,809)</u>	-	<u>(349,672)</u>
Total accumulated depreciation	<u>(18,667,904)</u>	<u>(2,516,648)</u>	<u>720,015</u>	<u>(20,464,537)</u>
Total capital assets being depreciated, net	<u>\$ 33,061,770</u>	<u>\$ (1,742,195)</u>	<u>\$ -</u>	<u>\$ 31,319,575</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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

<u>Description</u>	Balance at <u>Jan. 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>Dec. 31, 2010</u>
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>

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>2011</u>	<u>2010</u>
Federal preventive maintenance assistance grant	\$ 1,519,715	\$ 1,535,769
Property tax appropriation	2,714,035	2,445,397
Other tax appropriations	504,290	601,168
State operating assistance grant	<u>2,499,114</u>	<u>2,683,523</u>
	<u>\$ 7,237,154</u>	<u>\$ 7,265,857</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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**NOTE 4 - STATE, LOCAL AND FEDERAL ASSISTANCE (Continued)**

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, 2011 and 2010 of \$1,519,715 and \$1,535,769. As of December 31, 2011 and 2010, accounts receivable was \$193,877 and \$341,320, respectively, outstanding from the Federal Transportation Administration for preventive maintenance assistance.

In addition, the Corporation received \$1,099,359 and \$14,971,972 of federal capital contribution grants for the years ended December 31, 2011 and 2010, respectively. 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. As of December 31, 2011 and 2010, accounts receivable was \$54,225 and \$861,774 respectively, outstanding from the Federal Transportation Administration for capital grants.

The Corporation is also 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, 2011 and 2010 was \$2,499,114 and \$2,683,523. As of December 31, 2011 and 2010, \$2,000 and \$0 was receivables from the State of Indiana for operating assistance, respectively.

**NOTE 5 - 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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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**NOTE 5 - 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. During 2011 and 2010, the Corporation's contribution was \$53.63 per participant per week and the participant's contribution was \$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, 2011 and 2010, the Corporation's annual pension cost (APC), including amortization of past service cost over 20 years, was \$195,109 and \$175,680, respectively. The Corporation's contributions totaled \$218,419 and \$232,820 for the years ending 2011 and 2010, respectively. The participant's contributions totaled \$128,354 and \$123,881 for the years ending 2011 and 2010, 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 187,672	\$ 169,398
Interest on net pension asset	(23,911)	(20,197)
Adjustment to ARC	<u>31,348</u>	<u>26,479</u>
Annual pension cost (APC)	195,109	175,680
Contributions made	<u>218,419</u>	<u>232,820</u>
Increase in net pension asset	23,310	57,140
Net pension asset – beginning of year	<u>367,861</u>	<u>310,721</u>
Net pension asset – end of year	<u>\$ 391,171</u>	<u>\$ 367,861</u>

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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**NOTE 5 - 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>
2011	\$ 6,603	\$ 7,630	86.50%	\$ (1,027)	\$ 4,184	(24.50)%
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 6 - LITIGATION, CONTINGENT LIABILITIES, 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 \$245,321 and \$253,718 in 2011 and 2010. An agreement to extend this contract was signed in January 2010 with a term from October 1, 2010 through September 30, 2012 for 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, 2011 and 2010, 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.

**NOTE 7 - SUBSEQUENT EVENTS**

On April 13, 2012, the Corporation issued \$1,000,000 of tax anticipation warrants to provide short-term operating cash at an interest rate of 1.25%. The warrants are due December 31, 2012 and will be paid with property tax revenue received during the year. The tax warrants were issued to pay the costs of demolishing the old headquarters and to improve operating cash until the property tax revenue is received later in the year.

**SUPPLEMENTAL SCHEDULE**  
**SCHEDULE OF REVENUES, EXPENSES AND NONOPERATING ASSISTANCE**

REPORT OF INDEPENDENT AUDITORS  
ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of South Bend Public Transportation Corporation (the Corporation) as of and for the years ended December 31, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003 and 2002 and our reports thereon dated May 30, 2012, May 24, 2011, May 13, 2010, May 11, 2009, August 11, 2008, May 29, 2007, March 10, 2006, March 11, 2005, March 5, 2004 and January 24, 2003, which expressed an unqualified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenues, expenses, and nonoperating assistance is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Crowe Horwath LLP*  
Crowe Horwath LLP

South Bend, Indiana  
May 30, 2012

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 SCHEDULE OF REVENUES, EXPENSES AND NONOPERATING ASSISTANCE  
 For the ten years ended December 31, 2011

<u>Year</u>	<u>Passenger Revenue</u>	<u>Charter Revenue</u>	<u>Non-operating Assistance</u>	<u>Other Revenue</u>	<u>Total Revenues</u>	<u>Operating Expenses</u>	<u>Surplus Before Depreciation</u>	<u>Depreciation</u>	<u>Net Surplus (Deficit)</u>
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	10,202,407	227,744	2,274,118	(2,046,374)
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)
2011	1,401,657	-	7,260,767	259,121	8,921,545	10,635,365	(1,713,820)	2,516,648	(4,230,468)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2011

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<u>Federal Grantor/ Grant Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditure</u>
<b>U.S. Department of Transportation:</b>		
Federal Transportation Administration		
Preventive Maintenance:		
IN-90-X607 (2010)	20.507	\$ 296,978
IN-90-X621 (2011)	20.507	1,218,737
Capital Assistance:		
IN-04-0035	20.507	342,788
IN-90-X514	20.507	48,312
IN-90-X541	20.507	112,259
IN-90-X573	20.507	210,440
IN-90-X591	20.507	202,864
IN-90-X607	20.507	177,237
IN-90-X621	20.507	<u>1,877</u>
Total Expenditure of Federal Awards		<u>\$ 2,611,492</u>

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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, 2011

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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.

REPORT OF INDEPENDENT AUDITORS 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, 2011, 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

Management of the Corporation is responsible for establishing and maintaining effective 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.

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(Continued)

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*.

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 30, 2012

REPORT OF INDEPENDENT AUDITORS 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 the Corporation’s major federal program for the year ended December 31, 2011. 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, 2011.

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.

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(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

Crowe Horwath LLP

South Bend, Indiana  
May 30, 2012

SOUTH BEND TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2011

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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?                           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:                    \$300,000

Auditee qualified as low-risk auditee?                           Yes      X   No

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(Continued)

SOUTH BEND TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2011

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**Section II - Financial Statement Findings**

There were no findings for the year ended December 31, 2011.

**Section III - Federal Award Findings**

There were no findings for the year ended December 31, 2011.

SOUTH BEND TRANSPORTATION CORPORATION  
SCHEDULE OF PRIOR YEAR FINDINGS  
Year ended December 31, 2011

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

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