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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, 2013 to December 31, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountant's opinion, the financial statements included in the report present fairly the financial condition of South Bend Public Transportation Corporation, as of December 31, 2013 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, 2013 and 2012

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
South Bend, Indiana

ANNUAL REPORT
December 31, 2013 and 2012

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REPORT OF INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS

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

Report on Financial Statements

We have audited the accompanying financial statements of South Bend Public Transportation Corporation (the Corporation) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

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, 2013 and 2012 and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by 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.

Supplementary Information

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2014 on our consideration of the Corporation's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
July 9, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

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, 2013 and 2012. 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 financial statements, and the notes to the 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 five (45) buses and two (2) 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 2013, the Corporation's net position decreased by \$2,868,652. This change represents a 8% decrease over the preceding year. The decrease is due to the reduction in state funding of 26% from prior years. The Corporation received \$1,067,484 of capital contributions from the Federal Transit Administration.

During fiscal year 2012, the Corporation's net position decreased by \$2,982,201. This change represents a 7% decrease over the preceding year. The decrease is due to the Corporation's depreciation expenses, not being fully funded. The Corporation received \$1,079,445 of capital contributions from the Federal Transit Administration.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report essentially consists of five parts: management's discussion and analysis (this section), the 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 financial statements and the notes to the financial statements.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

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 position. All assets and liabilities associated with the operation of the Corporation are included in the statement of net position.

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.

Financial statements. The 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 position.** The statement of net position presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial position.
- **Statement of revenues, expenses, and changes in net position.** The statement of revenues, expenses, and changes in net position presents information showing how the Corporation's net position changed during the fiscal year. All changes in net position 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 position.
- **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 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 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 position. Net position may serve, over time, as a useful indicator of a corporation's financial position. At December 31, 2013, the Corporation's total assets decreased to \$34,586,479. This represents a decrease of \$3,306,131 or approximately 9% over the prior year. Total liabilities amounted to \$1,021,532. This represents a decrease of \$437,479 or approximately 30% over the prior year. Consequently net position changed to \$33,564,947. This represents a decrease of \$2,868,652 or approximately 8% (see Table 1). The decrease is primarily attributable to the change in capital assets and changes in cash balances.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

At December 31, 2012, the Corporation's total assets reached \$37,892,610. This represents a decrease of \$2,838,725 or approximately 7% over the prior year. Total liabilities amounted to \$1,459,011. This represents an increase of \$143,476 or approximately 11% over the prior year. Consequently net position reached \$36,433,599. This represents a decrease of \$2,982,201 or approximately 7% (see Table 1). The decrease is primarily attributable to the change in capital assets and depreciation expense on capital assets.

Change in net position. The change in net position at December 31, 2013, was a decrease of \$2,868,652. The Corporation's total operating revenues increased by \$21,720 or approximately 1%. The Corporation's total non-operating revenues decreased by \$500,927 compared to the preceding fiscal year. This decrease represents approximately 6%. Total operating expenses decreased by \$604,717 or approximately 4%. The changes in net position are detailed in Table 2.

The change in net position at December 31, 2012, was a decrease of 2,982,201. The Corporation's total operating revenues increased by \$16,127 or approximately 1%. The Corporation's total non-operating revenues increased by \$595,265 compared to the preceding fiscal year. This increase represents approximately 8%. Total operating expenses increased by \$442,570 or approximately 3%. The changes in net position are detailed in Table 2.

- **Revenues:** During 2013, operating revenues, principally fare revenues, increased by 1%. This minor increase is due to an increase in ridership the Corporation experienced. Increase in ridership is due to student ridership at local universities. Non-operating revenues decreased by \$500,927 from the prior fiscal year. This decrease is due to a decrease in state funding (PMTF) from the prior year.
- During 2012, operating revenues, principally fare revenues, increased by 1%. This minor increase is due to an increase in ridership the Corporation experienced due to re-alignment of routes in April 2012. Non-operating revenues increased by \$595,265 from the prior fiscal year. This increase is primarily attributable to a one year agreement with the Corporation's MPO for subsidizing of service.
- **Expenses:** During 2013, total operating expenses decreased by 4% over the prior period. Excluding depreciation, operating expenses decreased 3% which management primarily attributes to decrease in cost of fringe benefits and materials and supplies.
- During 2012, total operating expenses increased by 3% over the prior period. Excluding depreciation, operating expenses decreased 3% which management primarily attributes to service changes enacted in April 2013.
- **Capital contributions:** During fiscal year 2013 capital contributions decreased by \$11,961 or 1%. This decrease was primarily attributable to no large construction projects being completed in 2013.
- During fiscal year 2012 capital contributions decreased by \$19,914 or 2%. This decrease was primarily attributable to no large construction projects being completed in 2012.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. As of December 31, 2013, the Corporation had invested \$30,297,727 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents a decrease (including additions and disposals) of \$1,944,814 or 6% (see Table 3). This decrease is primarily attributed to the retiring of six fixed route vehicles without them being replaced and depreciation expense.

As of December 31, 2012, the Corporation had invested \$32,242,541 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents a decrease (including additions and disposals) of \$2,131,340 or 6% (see Table 3). This decrease is primarily attributed to the depreciation of the new operations facility.

Long-term debt. As of December 31, 2013 and 2012, 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 a decrease in both total revenues and total expenditures which have been incorporated into the fiscal year 2014 budget. These decreases are due to changes in our current state funding (PMTF) that the Corporation has experienced in 2013. In addition, the Corporation has been in the process of reviewing expenses to determine ways to reduce these costs.

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 POSITION
TABLE 1
Years ended December 31, 2013, 2012 and 2011

	2013	2012	Percentage Change 2013 vs. 2012	2011	Percentage Change 2012 vs. 2011
Assets:					
Current assets	\$ 1,943,547	\$ 2,475,454	-21%	\$ 2,821,078	-12%
Other assets	2,345,205	3,174,615	-26%	3,536,376	-10%
Capital assets (net)	<u>30,297,727</u>	<u>32,242,541</u>	-6%	<u>34,373,881</u>	-6%
Total assets	<u>\$ 34,586,479</u>	<u>\$ 37,892,610</u>	<u>-9%</u>	<u>\$ 40,731,335</u>	<u>-7%</u>
Liabilities:					
Current liabilities	\$ 1,021,532	\$ 1,459,011	-30%	\$ 1,315,535	11%
Total liabilities	<u>\$ 1,021,532</u>	<u>\$ 1,459,011</u>	<u>-30%</u>	<u>\$ 1,315,535</u>	<u>11%</u>
Net position:					
Net investment in capital assets	\$ 30,297,727	\$ 32,178,557	-6%	\$ 34,373,881	-6%
Unrestricted	<u>3,267,220</u>	<u>4,255,042</u>	-23%	<u>5,041,919</u>	-16%
Total net position	<u>\$ 33,564,947</u>	<u>\$ 36,433,599</u>	<u>-8%</u>	<u>\$ 39,415,800</u>	<u>-8%</u>

CHANGES IN NET POSITION
TABLE 2
Years ended December 31, 2013, 2012 and 2011

	2013	2012	Percentage Change 2013 vs. 2012	2011	Percentage Change 2012 vs. 2011
Operating revenues:					
Passenger fares	\$ 1,432,235	\$ 1,427,740	0%	\$ 1,401,657	2%
Advertising	69,000	54,000	28%	54,300	-1%
Miscellaneous	<u>197,390</u>	<u>195,165</u>	1%	<u>204,821</u>	-5%
Total operating revenues	<u>1,698,625</u>	<u>1,676,905</u>	<u>1%</u>	<u>1,660,778</u>	<u>1%</u>
Operating expenses:					
Labor	4,946,325	4,941,995	0%	5,253,795	-6%
Fringe benefits	1,795,234	1,824,723	-2%	1,790,020	2%
Services	1,151,890	1,354,055	-15%	1,083,638	25%
Materials and supplies	1,634,054	1,764,410	-7%	2,064,405	-16%
Utilities	159,001	174,807	-9%	185,853	-6%
Insurance	203,332	207,978	-2%	215,208	-3%
Dues and subscriptions	33,695	26,836	26%	25,284	6%
Travel and meetings	23,048	12,034	92%	10,944	10%
Advertising and promotion	29,472	4,268	591%	6,218	-31%
Depreciation	2,993,727	3,268,620	-8%	2,516,648	30%
Other	<u>20,088</u>	<u>24,857</u>	-19%	<u>-</u>	<u>0%</u>
Total operating expenses	<u>12,989,666</u>	<u>13,594,583</u>	<u>-4%</u>	<u>13,152,013</u>	<u>3%</u>
Operating loss	<u>(11,291,241)</u>	<u>(11,917,678)</u>	<u>-5%</u>	<u>(11,491,235)</u>	<u>4%</u>
Net nonoperating revenues (expenses):					
Investment interest	1,500	1,638	-8%	2,778	-41%
Local government assessments and taxes	3,499,662	3,458,789	1%	3,218,325	7%
Federal grants and reimbursements	1,725,130	1,511,622	14%	1,519,715	-1%
State operating grants	2,128,813	2,883,983	-26%	2,499,114	15%
Other	<u>-</u>	<u>-</u>	<u>0%</u>	<u>20,835</u>	<u>-100%</u>
Total nonoperating revenues (expenses)	<u>7,355,105</u>	<u>7,856,032</u>	<u>-6%</u>	<u>7,260,767</u>	<u>8%</u>
Net loss before capital contributions	<u>(3,936,136)</u>	<u>(4,061,646)</u>	<u>-3%</u>	<u>(4,230,468)</u>	<u>-4%</u>
Capital contributions	<u>1,067,484</u>	<u>1,079,445</u>	<u>-1%</u>	<u>1,099,359</u>	<u>-2%</u>
Change in net position	<u>(2,868,652)</u>	<u>(2,982,201)</u>	<u>-4%</u>	<u>(3,131,109)</u>	<u>-5%</u>
Net position, beginning of year	<u>36,433,599</u>	<u>39,415,800</u>	<u>-8%</u>	<u>42,546,909</u>	<u>-7%</u>
Net position, end of year	<u>\$ 33,564,947</u>	<u>\$ 36,433,599</u>	<u>-8%</u>	<u>\$ 39,415,800</u>	<u>-8%</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 CAPITAL ASSETS
 (NET OF DEPRECIATION)
 TABLE 3
 Years ended December 31, 2013, 2012 and 2011

	2013	2012	Percentage Change 2013 vs. 2012	2011	Percentage Change 2012 vs. 2011
Land	\$ 3,054,306	\$ 3,054,308	0%	\$ 3,054,308	0%
Land- New Ops Center	135,924	139,613	-3%	143,302	-3%
Construction in progress	331,554	63,984	416%	-	0%
Buildings and structures	23,632,262	24,497,900	-4%	25,126,270	-3%
Revenue equipment	2,266,905	3,084,717	-27%	4,218,062	-27%
Other service equipment	39,565	56,221	-30%	43,652	29%
Shop and garage equipment	517,217	797,317	-35%	1,014,043	-21%
Office equipment	286,522	457,683	-37%	628,599	-27%
Transit Studies	33,472	90,600	-63%	145,647	-37%
Total capital assets	\$ 30,297,727	\$ 32,242,541	-6%	\$ 34,373,881	-6%

FINANCIAL STATEMENTS

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 STATEMENTS OF NET POSITION
 December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash (Note 1)	\$ 508,907	\$ 1,492,622
Accounts receivable – services	29,521	14,311
Accounts receivable – federal grant	215,858	107,964
Accounts receivable – other	320	2,724
Lease receivable, current (Note 2)	400,000	400,000
Inventory - parts and supplies (Note 1)	327,828	267,359
Net pension asset (Note 5)	448,312	429,410
Prepaid expenses	12,801	190,474
Total current assets	1,943,547	2,904,864
Noncurrent assets:		
Lease receivable (Note 2)	2,345,205	2,745,205
Capital assets not being depreciated (Note 3)	3,385,860	3,118,290
Capital assets being depreciated, net (Note 3)	26,911,867	29,124,251
Total noncurrent assets	32,642,932	34,987,746
Total assets	\$ 34,586,479	\$ 37,892,610
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 360,777	\$ 538,605
Accrued payroll	48,295	130,624
Due to FTA	235,159	235,159
Accrued compensated absences (Note 1)	291,823	252,188
Other liabilities	85,478	302,435
Total current liabilities	1,021,532	1,459,011
Net position		
Net investment in capital assets	30,297,727	32,178,557
Unrestricted	3,267,220	4,255,042
Total net position	33,564,947	36,433,599
Total liabilities and net position	\$ 34,586,479	\$ 37,892,610

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN POSITION
 Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenue		
Passenger fares	\$ 1,432,235	\$ 1,427,740
Advertising	69,000	54,000
Miscellaneous	<u>197,390</u>	<u>195,165</u>
Total operating revenue	1,698,625	1,676,905
Operating expense		
Labor	4,946,325	4,941,995
Fringe benefits	1,795,234	1,824,723
Services	1,151,890	1,354,055
Materials and supplies	1,634,054	1,754,410
Utilities	159,001	174,807
Insurance	203,332	207,978
Dues and subscriptions	33,695	26,836
Travel and meetings	23,048	12,034
Advertising and promotion	29,472	4,268
Depreciation	2,993,727	3,268,620
Other	<u>20,088</u>	<u>24,857</u>
Total operating expenses	<u>12,989,866</u>	<u>13,594,583</u>
Operating loss	(11,291,241)	(11,917,678)
Nonoperating revenues		
Investment interest	1,500	1,638
Local government assessments and taxes	3,499,662	3,458,789
Federal grants and reimbursements	1,725,130	1,511,622
State operating grants	<u>2,128,813</u>	<u>2,883,983</u>
Total nonoperating revenues	<u>7,355,105</u>	<u>7,856,032</u>
Net loss before capital contributions	(3,936,136)	(4,061,646)
Capital contributions - grants	<u>1,067,484</u>	<u>1,079,445</u>
Change in net position	(2,868,652)	(2,982,201)
Net position, beginning of year	<u>36,433,599</u>	<u>39,415,800</u>
Net position, end of year	<u>\$ 33,564,947</u>	<u>\$ 36,433,599</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Receipts from passengers	\$ 1,614,415	\$ 1,675,263
Receipts from leased operations	400,000	400,000
Receipts from other operations	69,000	54,000
Payments to employees	(4,989,019)	(4,944,749)
Payments for fringe benefits	(1,814,136)	(1,862,962)
Payments for services	(1,826,037)	(1,811,971)
Payments for materials and supplies	<u>(1,694,523)</u>	<u>(1,679,845)</u>
Net cash used by operating activities	(8,240,300)	(8,170,264)
Cash flows from noncapital financing activities		
Proceeds from tax anticipation warrants	1,100,000	1,000,000
Repayment of tax anticipation warrants	(1,109,197)	(1,008,958)
Receipts of local government assessments and taxes	3,499,662	3,458,789
Receipts of federal and state government grants and reimbursements	<u>3,723,047</u>	<u>4,537,743</u>
Net cash provided by noncapital financing activities	7,213,512	7,987,574
Cash flows from capital and related financing activities		
Acquisition of capital assets	(1,048,913)	(1,137,280)
Capital contributions - grants	<u>1,090,486</u>	<u>1,079,445</u>
Net cash used by capital and related financing activities	41,573	(57,835)
Cash flows from investing activities		
Interest income	<u>1,500</u>	<u>1,638</u>
Net cash provided by investing activities	<u>1,500</u>	<u>1,638</u>
Net change in cash and cash equivalents	(983,715)	(238,887)
Cash and cash equivalents at beginning of year	<u>1,492,622</u>	<u>1,731,509</u>
Cash and cash equivalents at end of year	<u>\$ 508,907</u>	<u>\$ 1,492,622</u>
Supplemental disclosure of non-cash transactions		
Construction in progress included in accounts payable	\$ -	\$ 18,919

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating loss to net cash provided (used) by operating activities		
	\$(11,291,241)	\$(11,917,678)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	2,993,727	3,268,620
Change in assets and liabilities		
Accounts receivable	(12,806)	49,634
Lease receivable	400,000	400,000
Inventory	(60,469)	74,565
Net pension asset	(18,902)	(38,239)
Prepaid expense	177,673	(159,600)
Accounts payable	(177,828)	215,882
Due to FTA	-	(845)
Accrued payroll	(82,329)	16,970
Accrued compensated absences	39,635	(19,724)
Other liabilities	<u>(207,760)</u>	<u>(59,849)</u>
Net cash used by operating activities	<u>\$ (8,240,300)</u>	<u>\$ (8,170,264)</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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 Corporation's operations 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 Position. 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.

Reporting Entity: The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB). The statement requires that financial statements of the reporting entity include all of the organizations activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. Based upon the application of these criteria, no entities have been considered to be potential component units for the purpose of defining the Corporation's reporting entity.

Proprietary Fund Type: The Corporation operates as an Enterprise Fund, a type of Proprietary Fund. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. Net Position is segregated into Net Investment 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.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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

Cash: The Corporation had \$845,131 and \$1,601,116 deposited in local banks at December 31, 2013 and 2012, 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.

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 that were originally purchased with FTA grant monies. The amount owed is calculated as 80% of net book value of the assets disposed.

Property Tax Calendar: Property taxes for the 2013 tax levy were attached as an enforceable lien on properties as of March 1, 2013; these taxes were levied in January 2013, by the passage of a tax ordinance. Tax bills were prepared by St. Joseph County and were issued in April 2013 and October 2013 and payable in May 2013 and November 2013.

Property taxes for the 2012 tax levy were attached as an enforceable lien on properties as of March 1, 2012; these taxes were levied in January 2012, by the passage of a tax ordinance. Tax bills were prepared by St. Joseph County and were issued in April 2012 and October 2012 and payable in May 2012 and November 2012.

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: Any restricted net position may be 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.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013 and 2012

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

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

New Accounting Pronouncements: For the year ended December 31, 2012, the Corporation implemented GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The financial statements and accompanying footnotes reflect these new pronouncements.

For the year ended December 31, 2013, the Corporation implemented GASB 65, *Items Previously Reported as Assets and Liabilities* and GASB 66, *Technical Corrections - 2012*. The financial statements and accompanying footnotes reflect these new pronouncements.

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, 2013 and 2012, 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, 2013 and 2012, respectively.

At December 31, 2013 and 2012, the outstanding balance of the two lease receivables was \$2,745,205 and \$3,145,205, respectively.

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

2014	\$ 400,000
2015	400,000
2016	200,000
2017	200,000
2018	200,000
2019-2026	<u>1,345,205</u>
	2,745,205
Less: Current portion	<u>400,000</u>
Noncurrent portion	<u>\$ 2,345,205</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013 and 2012

NOTE 3 - CAPITAL ASSETS

Following is the rollforward for the Corporation's capital assets for 2013 and 2012:

<u>Description</u>	<u>Balance at Jan. 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Dec. 31, 2013</u>
Capital assets not being depreciated:				
Construction In Progress	\$ 63,984	\$ 267,570	\$ -	\$ 331,554
Land	<u>3,054,306</u>	<u>-</u>	<u>-</u>	<u>3,054,306</u>
Total capital assets not being depreciated	<u>\$ 3,118,290</u>	<u>\$ 267,570</u>	<u>\$ -</u>	<u>\$ 3,385,860</u>
Capital assets being depreciated:				
Land improvements	\$ 147,570	\$ -	\$ -	\$ 147,570
Buildings and improvements	30,452,384	206,722		30,659,106
Revenue vehicles and equipment	18,880,570	504,470	(3,493,767)	15,891,273
Service vehicles and equipment	368,776	-	-	368,776
Shop and garage equipment	1,542,020	-	-	1,542,020
Transit studies	171,984	-	-	171,984
Furniture and office equipment	<u>1,023,474</u>	<u>70,151</u>	<u>-</u>	<u>1,093,625</u>
Subtotal	52,586,778	781,343	(3,493,767)	49,874,354
Less accumulated depreciation for:				
Land-improvements	(7,957)	(3,689)	-	(11,646)
Buildings and improvements	(5,954,485)	(1,072,359)	-	(7,026,844)
Revenue vehicles and equipment	(15,795,853)	(1,322,282)	3,493,767	(13,624,368)
Service vehicles and equipment	(312,554)	(16,657)	-	(329,211)
Shop and garage equipment	(744,703)	(280,100)	-	(1,024,803)
Transit studies	(81,184)	(57,328)	-	(138,512)
Furniture and office equipment	<u>(565,791)</u>	<u>(241,312)</u>	<u>-</u>	<u>(807,103)</u>
Total accumulated depreciation	<u>(23,462,527)</u>	<u>(2,993,727)</u>	<u>3,493,767</u>	<u>(22,962,487)</u>
Total capital assets being depreciated, net	<u>\$ 29,124,251</u>	<u>\$ (2,212,384)</u>	<u>\$ -</u>	<u>\$ 26,911,867</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 3 - CAPITAL ASSETS (Continued)

<u>Description</u>	Balance at Jan. 1, 2012	Additions	Deletions	Balance at Dec. 31, 2012
Capital assets not being depreciated:				
Construction In Progress	\$ -	\$ 63,984	\$ -	\$ 63,984
Land	<u>3,054,306</u>	<u>-</u>	<u>-</u>	<u>3,054,306</u>
 Total capital assets not being depreciated	 <u>\$ 3,054,306</u>	 <u>\$ 63,984</u>	 <u>\$ -</u>	 <u>\$ 3,118,290</u>
 Capital assets being depreciated:				
Land improvements	\$ 147,570	\$ -	\$ -	\$ 147,570
Buildings and improvements	29,887,731	835,283	(270,630)	30,452,384
Revenue vehicles and equipment	18,791,053	89,517	-	18,880,570
Service vehicles and equipment	329,209	39,567	-	368,776
Shop and garage equipment	1,480,708	61,312	-	1,542,020
Transit studies	169,570	2,414	-	171,984
Furniture and office equipment	978,271	45,203	-	1,023,474
Subtotal	<u>51,784,112</u>	<u>1,073,296</u>	<u>(270,630)</u>	<u>52,586,778</u>
Less accumulated depreciation for:				
Land-improvements	(4,268)	(3,689)	-	(7,957)
Buildings and improvements	(4,761,461)	(1,463,654)	270,630	(5,954,485)
Revenue vehicles and equipment	(14,572,991)	(1,222,862)	-	(15,795,853)
Service vehicles and equipment	(285,557)	(26,997)	-	(312,554)
Shop and garage equipment	(466,665)	(278,038)	-	(744,703)
Transit studies	(23,923)	(57,261)	-	(81,184)
Furniture and office equipment	(349,672)	(216,119)	-	(565,791)
Total accumulated depreciation	<u>(20,464,537)</u>	<u>(3,268,620)</u>	<u>270,630</u>	<u>(23,462,527)</u>
 Total capital assets being depreciated, net	 <u>\$ 31,319,575</u>	 <u>\$ (2,195,324)</u>	 <u>\$ -</u>	 <u>\$ 29,124,251</u>

The Corporation hired a consultant to conduct an Urban Corridor Study in the City of South Bend. Total costs associated with the contract are estimated as \$400,000 and actual costs incurred on the contract through December 31, 2013 were \$331,554, which are recorded as construction in progress.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013 and 2012

NOTE 4 - STATE, LOCAL AND FEDERAL ASSISTANCE

State, local and federal assistance is as follows:

	<u>2013</u>	<u>2012</u>
Local government assessments and taxes:		
Property tax appropriation	\$ 2,886,355	\$ 2,842,622
Other tax appropriations	<u>613,307</u>	<u>616,167</u>
Total	3,499,662	3,458,789
Federal grants and reimbursement:		
Federal preventive maintenance assistance grant	1,259,825	1,420,709
Federal operating assistance grant	<u>465,305</u>	<u>90,913</u>
Total	1,725,130	1,511,622
State operating assistance grant	<u>2,128,813</u>	<u>2,883,983</u>
	<u>\$ 7,353,605</u>	<u>\$ 7,854,394</u>

The Corporation is the designated recipient of funds under the Urban Mass Transportation Act of 1964. The preventative maintenance assistance grants and federal operating assistance grants are awarded to the Corporation and funds may be earned and disbursed generally over a two year period. The Corporation received assistance under these grants for the years ended December 31, 2013 and 2012 of \$1,725,130 and \$1,511,622. As of December 31, 2013 and 2012, accounts receivable was \$195,000 and \$64,104, respectively, outstanding from the Federal Transportation Administration for preventive maintenance assistance and operating assistance.

In addition, the Corporation received \$1,067,484 and \$1,079,445 of federal capital contribution grants for the years ended December 31, 2013 and 2012, 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. As of December 31, 2013 and 2012, accounts receivable was \$20,858 and \$43,860, 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, 2013 and 2012 was \$2,128,813 and \$2,883,983. As of December 31, 2013 and 2012, there was no receivable 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.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 5 - EMPLOYEE PENSION PLAN (Continued)

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.

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 2013 and 2012, the Corporation's contribution was \$54.63 per participant per week and the participant's contribution was \$31.50 per week. The required contribution is calculated through actuarial analysis to determine the contribution rates that are required over time to allow sufficient assets to be available to pay benefits when due. The allocation of the required contribution between the Corporation and the participants is determined and governed by collective bargaining agreements.

For the years ending December 31, 2013 and 2012, the Corporation's annual pension cost (APC), including amortization of past service cost over 20 years, was \$190,661 and \$176,118, respectively. The Corporation's contributions totaled \$209,563 and \$214,357 for the years ending 2013 and 2012, respectively. The Corporation contributed 115%, 127% and 116% of the required amount in 2013, 2012 and 2011, respectively. The participant's contributions totaled \$120,826 and \$123,699 for the years ending 2013 and 2012, 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, 2013 has been performed to determine the required contribution for the 2013 year.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013 and 2012

NOTE 5 - EMPLOYEE PENSION PLAN (Continued)

The following represents the significant components of the APC and changes in net pension asset during the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Annual required contribution (ARC)	\$ 181,980	\$ 168,209
Interest on net pension asset	(27,912)	(25,426)
Adjustment to ARC	<u>36,593</u>	<u>33,335</u>
Annual pension cost (APC)	190,661	176,118
Contributions made	<u>209,563</u>	<u>214,357</u>
Increase in net pension asset	18,902	38,239
Net pension asset – beginning of year	<u>429,410</u>	<u>391,171</u>
 Net pension asset – end of year	 <u>\$ 448,312</u>	 <u>\$ 429,410</u>

Schedule of Funding Progress: Expressing the net position 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>
2013	\$ 7,318	\$ 8,102	90.32%	\$ (784)	\$ 3,747	20.92%
2012	7,022	7,997	87.80%	(975)	3,917	(24.90)%
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%

NOTE 6 - LITIGATION, CONTINGENT LIABILITIES, COMMITMENTS

Commitments: Professional Transit Management, Ltd. and Veolia Transportation Services, Inc. provide management and advisory service to the Corporation. The term of the current contract is from October 1, 2012 through September 30, 2015 with options to extend the agreement through September 30, 2017.

The terms of the previous contract were from October 1, 2007 through September 30, 2010 with signed extensions through September 30, 2012. The basic service fees, including reimbursement for travel expenses, were \$246,075 and \$215,537 in 2013 and 2012. These contracts provide for basic annual fees, assuming all extensions are elected, as follows:

2014	\$ 254,466
2015	262,869
2016	271,682
2017	208,874

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 6 - LITIGATION, CONTINGENT LIABILITIES, COMMITMENTS

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, 2013 and 2012, the Corporation has purchased commercial insurance policies covering risks of loss related to the above mentioned events. In addition, various claims and lawsuits arising from the normal course of business are pending against the Corporation. In the opinion of management, the potential loss on all claims should not have a material effect on the financial statements.

NOTE 7 – TEMPORARY LOAN TAX ANTICIPATION WARRANTS

In 2012, the Corporation issued \$1,100,000 of tax anticipation warrants to provide short-term operating cash at an interest rate of 1.00%. The warrants were paid in full on December 27, 2013.

On January 7, 2014, the Corporation issued \$1,100,000 of tax anticipation warrants to provide short-term operating cash at an interest rate of 0.78%. The warrants are due December 31, 2014 and are to be paid with property tax revenue received during the year. The tax warrants were issued to improve operating cash until the property tax revenue is received later in the year.

NOTE 8 – SUBSEQUENT EVENT

On April 28, 2014, the Corporation borrowed \$400,000 through a loan with 1st Source Bank to provide short-term operating cash at an interest rate of 3.25%. The loan is due November 30, 2014 and will be paid with reimbursements for operating expenses from the grants.

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, 2013, 2012, 2011, 2010, 2009, 2008, 2007, 2006, 2005 and 2004 and our reports thereon dated July 9, 2014, June 17, 2013, May 30, 2012, May 24, 2011, May 13, 2010, May 11, 2009, August 11, 2008, May 29, 2007, March 10, 2006 and March 11, 2005, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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
July 9, 2014

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 SCHEDULE OF REVENUES, EXPENSES AND NONOPERATING ASSISTANCE
 For the ten years ended December 31, 2013

Year	Passenger Revenue	Charter Revenue	Non-operating Assistance	Other Revenue	Total Revenues	Operating Expenses	Surplus Before Depreciation	Depreciation	Net Surplus (Deficit)
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)
2012	1,427,740	-	7,856,032	249,165	9,532,937	10,325,963	(793,026)	3,268,620	(4,061,646)
2013	1,432,235	-	7,355,105	266,390	9,053,730	9,996,139	(942,409)	2,993,727	(3,936,136)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended December 31, 2013

<u>Federal Grantor/ Grant Number</u>	<u>CFDA Number</u>	<u>Federal Expenditure</u>
U.S. Department of Transportation:		
Federal Transportation Administration		
Preventive Maintenance:		
IN-90-X628 (2012)	20.507	\$ 415,829
IN-90-X650 (2013)	20.507	844,000
Operating Assistance		
IN-90-X650 (2013)	20.507	376,000
Capital Assistance:		
IN-04-X044	20.507	157,025
IN-90-X514	20.507	74,556
IN-90-X591	20.507	78,578
IN-90-X607	20.507	73,074
IN-90-X621	20.507	296,566
IN-90-X628	20.507	451,239
IN-90-X650	20.507	<u>9,360</u>
Total Expenditures of Federal Awards		<u>\$ 2,776,227</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, 2013

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.

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of South Bend Public Transportation Corporation ("Corporation") as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated July 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
July 9, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROLS OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited the South Bend Public Transportation Corporation's (Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2013. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

(Continued)

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal controls over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
July 9, 2014

SOUTH BEND TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified not
considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified not
considered to be material weaknesses? Yes None Reported

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

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

Section II - Financial Statement Findings

There were no findings for the year ended December 31, 2013.

Section III - Federal Award Findings

There were no findings for the year ended December 31, 2013.

SOUTH BEND TRANSPORTATION CORPORATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2013

Section IV - Prior Year Findings and Questioned Costs

There were no findings for the year ended December 31, 2012.