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September 12, 2017

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, 2016 to December 31, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of South Bend Public Transportation Corporation, as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The audit report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

**SOUTH BEND PUBLIC
TRANSPORTATION CORPORATION**

FINANCIAL STATEMENTS
December 31, 2016

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
South Bend, Indiana

FINANCIAL STATEMENTS
December 31, 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	8
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION.....	9
STATEMENT OF CASH FLOWS.....	10
NOTES TO FINANCIAL STATEMENTS	11
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF CHANGES IN THE CORPORATION'S NET PENSION LIABILITY AND RELATED RATIOS	21
SCHEDULE OF THE CORPORATION'S CONTRIBUTIONS.....	22
SUPPLEMENTAL SCHEDULES	
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION.....	23
SCHEDULE OF OPERATING REVENUES, EXPENSES, AND NONOPERATING REVENUES	24
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	25
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	26
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 <i>GOVERNMENT AUDITING STANDARDS</i>	27
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROLS OVER COMPLIANCE	29
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	31
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	32

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the South Bend Public Transportation Corporation (the Corporation) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

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, 2016, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

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 7, the Schedule of Changes in the Corporation's Net Pension Liability and Related Ratios on page 21, and the Schedule of the Corporation's Contributions on page 22, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying schedule of expenditures of federal awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2017 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
August 21, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2016

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 year ended December 31, 2016. 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 a work force of one hundred twelve (112) 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 fifteen (15) 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

- Corporation's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at December 31, 2016 by \$34.9 million (net position). Of this amount, \$1.4 million (unrestricted net position) may be used to meet Corporation's ongoing obligations arising from providing transportation service to the community.
- Fare revenues for 2016 decreased less than 4% over that of the prior year.
- FTA capital contributions for 2016 increased 31% from that of the prior year.
- Operating expenses before depreciation decreased 2% from the prior year.
- Net position increased approximately \$1 million, or 3%.

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'S DISCUSSION AND ANALYSIS
Year ended December 31, 2016

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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 deferred outflows of resources and liabilities and deferred inflows of resources, 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.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2016

FINANCIAL ANALYSIS

Net position. Net position may serve, over time, as a useful indicator of a corporation's financial position. At December 31, 2016, the Corporation's total assets increased by \$279,172 to \$38,337,304, or approximately 1% over the prior year. Total liabilities amounted to \$3,929,313. This represents a decrease of \$970,871 or approximately 20% over the prior year. The decrease is mainly attributed to a \$500,000 decrease in outstanding debt related to payments on the loan payable and payments totaling \$187,500 on the outstanding line of credit. Consequently, net position changed to \$34,905,267. This represents an increase of \$965,532 or approximately 3%.

TABLE 1 - NET POSITION

	<u>2016</u>	<u>2015</u>	<u>Percentage Change 2016 vs. 2015</u>
Assets:			
Current assets	\$ 1,432,577	\$ 1,841,982	(22) %
Noncurrent assets	2,395,205	1,745,205	37 %
Capital assets (net)	<u>34,509,522</u>	<u>34,470,945</u>	<u>0 %</u>
Total assets	<u>38,337,304</u>	<u>38,058,132</u>	<u>1 %</u>
Deferred outflows of resources	<u>531,298</u>	<u>786,391</u>	<u>(32) %</u>
Liabilities:			
Current liabilities	1,614,257	2,019,664	(20) %
Noncurrent liabilities	<u>2,315,056</u>	<u>2,880,520</u>	<u>(20) %</u>
Total liabilities	<u>3,929,313</u>	<u>4,900,184</u>	<u>(20) %</u>
Deferred inflows flows of resources	<u>34,022</u>	<u>4,604</u>	<u>639 %</u>
Net position:			
Net investment in capital assets	33,509,522	32,970,945	2 %
Unrestricted	<u>1,395,745</u>	<u>968,790</u>	<u>44 %</u>
Total net position	<u>\$ 34,905,267</u>	<u>\$ 33,939,735</u>	<u>3 %</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2016

Changes in net position. The change in net position at December 31, 2016, was an increase of \$965,532. The Corporation's total operating revenues increased by \$42,997 or approximately 3%. The Corporation's total non-operating revenues increased by \$506,124 compared to the preceding fiscal year or approximately 7%. Total operating expenses decreased by \$277,849 or approximately 2%. The increase in nonoperating revenue is attributed to an increase in property tax distributions received by the Corporation and additional COIT funding including a one-time special distribution of \$204,195 in 2016. The changes in net position are detailed in Table 2.

TABLE 2 - CHANGES IN NET POSITION

	<u>2016</u>	<u>2015</u>	<u>Percentage Change 2016 vs. 2015</u>
Operating revenues:			
Passenger fares	\$ 1,364,468	\$ 1,408,767	(3) %
Advertising	72,000	72,000	0 %
Miscellaneous	<u>281,010</u>	<u>193,714</u>	<u>45 %</u>
Total operating revenues	<u>1,717,478</u>	<u>1,674,481</u>	<u>3 %</u>
Operating expenses:			
Labor	5,214,135	5,077,761	3 %
Fringe benefits	2,326,561	2,153,932	8 %
Services	808,875	985,704	(18) %
Materials and supplies	1,278,078	1,555,767	(18) %
Utilities	232,241	263,460	(12) %
Insurance	215,543	215,752	0 %
Dues and subscriptions	28,948	28,265	2 %
Travel and meetings	46,017	56,300	(18) %
Advertising and promotion	71,076	51,511	38 %
Depreciation	2,698,506	2,771,647	(3) %
Other	<u>11,934</u>	<u>49,664</u>	<u>(76) %</u>
Total operating expenses	<u>12,931,914</u>	<u>13,209,763</u>	<u>(2) %</u>
Operating loss	(11,214,436)	(11,535,282)	(3) %
Net nonoperating revenues:			
Investment interest	2,713	2,104	29 %
Local government assessments and taxes	3,758,813	3,337,551	13 %
Federal grants and reimbursements	2,547,192	2,259,351	13 %
State operating grants	1,984,401	1,965,891	1 %
Other	<u>(193,806)</u>	<u>28,292</u>	<u>(785) %</u>
Total nonoperating revenues (expenses)	<u>8,099,313</u>	<u>7,593,189</u>	<u>7 %</u>
Net loss before capital contributions	(3,115,123)	(3,942,093)	(21) %
Capital contributions	<u>4,080,655</u>	<u>3,120,375</u>	<u>31 %</u>
Change in net position	965,532	(821,718)	218 %
Net position, beginning of year	<u>33,939,735</u>	<u>34,761,453</u>	<u>(2) %</u>
Net position, end of year	<u>\$ 34,905,267</u>	<u>\$ 33,939,735</u>	<u>3 %</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. As of December 31, 2016, the Corporation had invested \$34,509,522 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents an increase (including additions and disposals) of \$38,577 or 0.1% (see Table 3). The most significant capital project in 2016 is the CNG Fueling Center which was in construction in progress in 2015. The total cost of the project was totaling \$3.7 million at December 31, 2016. See Note 3 for further disclose on capital assets.

TABLE 3 - CAPITAL ASSETS (NET OF DEPRECIATION)

	<u>2016</u>	<u>2015</u>	<u>Percentage Change 2016 vs. 2015</u>
Land	\$ 1,622,941	\$ 3,054,308	(47) %
Construction in progress	-	1,848,454	(100) %
Land improvements	124,857	128,546	(3) %
Buildings and improvements	21,040,942	21,812,488	(4) %
Revenue vehicles and equipment	7,849,366	7,166,325	10 %
Other service vehicles equipment	16,401	29,899	(45) %
Shop and garage equipment	15,133	15,536	(3) %
Furniture and office equipment	92,666	130,777	(58) %
Transit studies	54,809	186,351	(50) %
CNG	3,692,407	98,261	3,685 %
Total capital assets	<u>\$ 34,509,522</u>	<u>\$ 34,470,945</u>	<u>0 %</u>

Long-term debt. As of December 31, 2016, the Corporation had \$1,000,000 in outstanding loan payable compared to \$1,500,000 at December 31, 2015. The decrease in debt is attributed to payments made during 2016 on the loan balance. The proceeds drawn upon were used to fund the local share for the acquisition of new buses in 2014. The Corporation also obtained a line of credit to support operating cash flows during 2015. The outstanding balance on the line of credit is \$62,500 and \$250,000 at December 31, 2016 and 2015, respectively. See Note 4 for further information.

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 2018 budget. These decreases are due to changes in our current state funding (PMTF) that the Corporation has experienced since 2015. 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.

FINANCIAL STATEMENTS

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF NET POSITION
December 31, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>2016</u>
Current assets	
Cash and cash equivalents (Note 1)	\$ 784,525
Accounts and grants receivable	116,244
Lease receivable - current portion (Note 2)	200,000
Inventory (Note 1)	<u>331,808</u>
Total current assets	<u>1,432,577</u>
Noncurrent assets	
Lease receivable (Note 2)	1,545,205
Note receivable (Note 1)	850,000
Non-depreciable capital assets (Note 3)	1,622,941
Capital assets, net of accumulated depreciation (Note 3)	<u>32,886,581</u>
Total noncurrent assets	<u>36,904,727</u>
Total assets	<u>38,337,304</u>
Deferred outflows of resources	
Deferred outflows of pension (Note 8)	<u>531,298</u>
Total assets and deferred outflows of resources	<u>\$ 38,868,602</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Current liabilities	
Accounts payable	\$ 302,659
Accrued payroll	120,516
Due to FTA	305,501
Accrued compensated absences (Note 1)	258,301
Other current liabilities	64,780
Line of credit payable (Note 4)	62,500
Loan payable (Note 4)	<u>500,000</u>
Total current liabilities	<u>1,614,257</u>
Noncurrent liabilities	
Loan payable (Note 4)	500,000
Net pension liability (Note 8)	<u>1,815,056</u>
Total noncurrent liabilities	<u>2,315,056</u>
Total liabilities	<u>3,929,313</u>
Deferred inflows of resources	
Deferred inflows from pension (Note 8)	<u>34,022</u>
Net position	
Net investment in capital assets	33,509,522
Unrestricted	<u>1,395,745</u>
Total net position	<u>34,905,267</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 38,868,602</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 Year ended December 31, 2016

	<u>2016</u>
Operating revenue	
Passenger fares	\$ 1,364,468
Advertising	72,000
Miscellaneous operating revenue	<u>281,010</u>
Total operating revenue	<u>1,717,478</u>
Operating expenses	
Labor	5,214,135
Fringe benefits	2,326,561
Services	808,875
Materials and supplies	1,278,078
Utilities	232,241
Insurance	215,543
Dues	28,948
Travel	46,017
Advertising	71,076
Depreciation	2,698,506
Other operating expenses	<u>11,934</u>
Total operating expenses	<u>12,931,914</u>
Operating loss	<u>(11,214,436)</u>
Non-operating revenues (expense)	
Investment interest	2,713
Insurance recoveries	215,913
Interest expense	(53,560)
Loss on sale of capital assets	(356,159)
Local government assessments and taxes (Note 5)	3,758,813
Federal grants (Note 5)	2,547,192
State operating grants (Note 5)	<u>1,984,401</u>
Total non-operating revenues	<u>8,099,313</u>
Net loss before capital contributions	(3,115,123)
Capital contributions - grants (Note 5)	<u>4,080,655</u>
Change in net position	965,532
Net position, beginning of year	<u>33,939,735</u>
Net position, end of year	<u>\$ 34,905,267</u>

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2016

	<u>2016</u>
Cash flows from operating activities	
Receipts from customers	\$ 1,650,311
Receipts from leased operations	200,000
Receipts from other operations	72,000
Payments to employees	(5,173,374)
Payments for fringe benefits	(2,108,166)
Payments for services	(1,528,669)
Payments for materials and supplies	<u>(1,122,387)</u>
Net cash used by operating activities	(8,010,285)
Cash flows from noncapital financing activities	
Proceeds from tax anticipation warrants	1,100,000
Repayment of tax anticipation warrants	(1,110,878)
Receipts of local government assessments and taxes	3,758,813
Receipts of federal and state government grants	5,031,602
Payments on line of credit	<u>(187,500)</u>
Net cash provided by noncapital financing activities	8,592,037
Cash flows from capital and related financing activities	
Purchases of capital assets	(4,276,346)
Capital grant receipts	4,265,437
Proceeds on sale of capital assets (land)	200,000
Proceeds from insurance	215,913
Payments of interest	(53,560)
Payments on loan payable	<u>(500,000)</u>
Net cash provided by capital and related financing activities	(148,556)
Cash flows from investing activities	
Interest income	<u>2,713</u>
Net change in cash and cash equivalents	435,909
Cash and cash equivalents at beginning of year	348,616
Cash and cash equivalents at end of year	<u>\$ 784,525</u>
Reconciliation of operating loss to net cash used by operating activities	
Adjustments to reconcile loss from operations to net cash used by operating activities:	\$ (11,214,436)
Depreciation	2,698,506
Change in assets and liabilities	
Accounts receivable	4,833
Lease receivable	200,000
Inventory	155,691
Deferred outflows of resources – pension liability	255,093
Accounts payable	(71,640)
Due to FTA	7,102
Accrued payroll and compensated absences	35,005
Other liabilities	(44,393)
Net pension liability	(65,464)
Deferred inflows of resources – pension liability	<u>29,418</u>
Net cash used by operating activities	<u>\$ (8,010,285)</u>
Supplemental schedule of noncash investing activity:	
Capital assets in accounts payable	\$ 191,458

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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.

The Governmental Accounting Standards Board (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 GASB. GASB Statement No. 61 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.

Cash and cash equivalents: The Corporation had \$890,956 deposited in local banks at December 31, 2016, which is fully insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposits Insurance Fund. For presentation in the statement of cash flows, cash and cash equivalents includes unrestricted cash deposits and other investments with original maturities of three months or less. The difference in the carrying amount of cash and the bank balance is caused by items in transit and outstanding checks at December 31, 2016.

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

Note Receivable: During January 2016, the Corporation entered an agreement to sell a piece of land for a purchase price of \$1,050,000. The sales agreement includes a \$850,000 promissory note payable to the Corporation due in full by January 2020.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

Accounts and Grants Receivable: Receivables consist of outstanding balances due from local, state, and federal sources. No allowance for bad debts has been established as management considers all receivables to be collectible.

Capital Assets: 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

Accrued 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 as of December 31, 2016, are accrued on the statement of net position.

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 2016 tax levy were attached as an enforceable lien on properties as of March 1, 2016; these taxes were levied in January 2016, by passage of a tax ordinance. Tax bills were prepared by St. Joseph County and were issued in April 2016 and October 2016 and payable in May 2016 and December 2016.

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.

New Accounting Pronouncements: In 2016, the GASB has issued the following statements which were implemented by the Corporation:

- Statement No. 72, *Fair Value Measurement and Application*. GASB Statement 72 provides guidance for determining fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurement. The adoption of this Statement had no effect on the Corporation's net position or changes therein.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The adoption of this Statement had no effect on the Corporation's net position or changes therein.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

- GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement addresses financial reporting for tax abatements. The adoption of this Statement had no effect on the Corporation's net position or changes therein.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The adoption of this Statement had no effect on the Corporation's net position or changes therein.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The adoption of this Statement had no effect on the Corporation's net position or changes therein.

Net Pension Liability: For purposes of measuring the net pension liability on the South Bend Public Transportation Corporation Pension Trust (Plan), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense of the Plan have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds to employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 - LEASE RECEIVABLES

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 year ended December 31, 2016.

At December 31, 2016, the outstanding balance of the lease receivable was \$1,745,205. Future minimum lease payments to be received under both leases are as follows:

2017	\$ 200,000
2018	200,000
2019	200,000
2020	200,000
2021	200,000
2022- 2025	745,205
	<u>1,745,205</u>
Less: Current portion	<u>200,000</u>
Noncurrent position	<u>\$ 1,545,205</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CAPITAL ASSETS

Following are the changes in capital assets for the year ended December, 31 2016:

<u>Description</u>	<u>Balance Jan. 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2016</u>
Non-depreciable capital assets:				
Construction in progress*	\$ 1,848,454	\$ 2,129,392	\$ (3,977,846)	\$ -
Land	<u>3,054,308</u>	<u>-</u>	<u>(1,431,367)</u>	<u>1,622,941</u>
Total non-depreciable capital assets	<u>\$ 4,902,762</u>	<u>\$ 2,129,392</u>	<u>\$ (5,409,213)</u>	<u>\$ 1,622,941</u>
Depreciable capital assets:				
Land improvements	\$ 147,570	-	-	147,570
Buildings and improvements	30,959,949	212,561	-	31,172,510
Revenue vehicles and equipment	21,855,090	1,781,315	(1,588,296)	22,048,109
Service vehicles and equipment	304,067	-	-	304,067
Shop and garage equipment	1,542,020	14,083	-	1,556,103
Transit studies	566,611	-	-	566,611
Furniture and office equipment	1,130,928	31,099	(10,685)	1,151,342
CNG Station	<u>214,389</u>	<u>3,977,846</u>	<u>-</u>	<u>4,192,235</u>
Total depreciable capital assets	<u>56,720,624</u>	<u>6,016,904</u>	<u>(1,598,981)</u>	<u>61,138,547</u>
Less accumulated depreciation:				
Land improvements	(19,024)	(3,689)	-	(22,713)
Buildings and improvements	(9,147,461)	(984,340)	-	(10,131,801)
Revenue vehicles and equipment	(14,688,765)	(1,099,200)	1,588,296	(14,199,669)
Service vehicles and equipment	(274,168)	(13,496)	-	(287,664)
Shop and garage equipment	(1,526,484)	(14,486)	-	(1,540,970)
Transit studies	(380,260)	(131,542)	-	(511,802)
Furniture and office equipment	(1,000,151)	(68,053)	10,685	(1,057,519)
CNG Station	<u>(116,128)</u>	<u>(383,700)</u>	<u>-</u>	<u>(499,828)</u>
Total accumulated depreciation	<u>(27,152,441)</u>	<u>(2,698,506)</u>	<u>1,598,981</u>	<u>(28,251,966)</u>
Total depreciable capital assets, net of accumulated depreciation	<u>\$ 29,568,183</u>	<u>\$ 3,318,398</u>	<u>\$ -</u>	<u>\$ 32,886,581</u>

*Construction in process related to the ongoing construction on the CNG Fueling Center during 2016 and 2015. The project was completed in March 2016.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE 4 - LOAN AND LINE OF CREDIT PAYABLE

In 2014, the Corporation obtained a \$1,500,000 promissory note to fund the acquisition of new buses. The loan requires monthly, interest only payments until February 2016 when quarterly principal payments of \$125,000 plus interest commence. The loan has a fixed interest rate of 2.0% and matures in November 2018. The outstanding balance on the loan is \$1,000,000 at December 31, 2016. The future maturities of the long-term debt are as follows:

<u>Years ending December 31</u>	<u>Amount</u>
2017	\$ 500,000
2018	<u>500,000</u>
	1,000,000
Current portion	<u>500,000</u>
Noncurrent portion	<u>\$ 500,000</u>

In 2015, the Corporation obtained a line of credit to support operating cash flows. Interest is payable monthly at 2% per annum with principal payments due quarterly beginning on August 1, 2016 in the amount of \$62,500. The outstanding balance on the line of credit is \$62,500 at December 31, 2016. The line of credit has a maturity date of February 28, 2017 and was paid in full in January 2017.

Interest expense was \$53,560 for the year ended December 31, 2016.

NOTE 5 - STATE, LOCAL AND FEDERAL ASSISTANCE

State, local and federal assistance is as follows:

<u>Non-operating:</u>	<u>2016</u>
Local government assessments and taxes:	
Property tax appropriation	\$ 2,844,454
Other tax appropriations	<u>914,359</u>
Total	3,758,813
Federal grants and reimbursement:	
Federal preventive maintenance assistance grant	1,202,592
Federal operating assistance grant	<u>1,344,600</u>
Total	2,547,192
State operating assistance grant	<u>1,984,401</u>
Total state, local and federal assistance	<u>\$ 8,290,406</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 year ended December 31, 2016 of \$2,547,192.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - STATE, LOCAL AND FEDERAL ASSISTANCE (Continued)

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 year ended December 31, 2016 was \$1,984,401.

Capital:

The Corporation received \$4,080,655 of capital contributions from both federal and local sources for the year ended December 31, 2016. 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, 2016, accounts receivable was \$85,010, outstanding from the Federal Transportation Administration for capital grants.

NOTE 6 – CONTINGENT LIABILITIES

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 year ended December 31, 2016, the Corporation has purchased commercial insurance policies covering risks of loss related to the above mentioned events. There were no significant reductions in insurance coverage during 2016 and there were no settlements that exceeded insurance coverage during the previous three years for those risks that the Corporation purchased insurance. 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 2016, 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 by December 31, 2016.

On January 4, 2017, the Corporation issued \$1,100,000 of tax anticipation warrants to provide short-term operating cash at an interest rate of 1.64%. The warrants are due December 29, 2017 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.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - EMPLOYEE PENSION PLAN

Defined Benefit Pension Plan: The Corporation sponsors a trustee, single-employer, defined benefit pension plan, The South Bend Public Transportation Corporation Pension Trust (Plan), covering certain full-time permanent union and nonunion employees. The Plan was established for the purpose of providing retirement, death, and disability benefits for employees of the Corporation.

The Plan's trust document authorizes a Board of Trustees consisting of three members appointed by the Board of Directors of the Corporation and three members of the Union, with one member being the person holding the office of Union President, as elected by the Union membership, and the second and third member being selected by the Union President. The Corporation reserves the right at any time to amend the plan provisions as deemed necessary, however, no plan amendments shall make it possible for any part of the plan assets to be used for purposes other than to satisfy all benefits entitled to the plan participants.

The plan is audited separately from these financial statements. Requests for additional financial information related to the plan should be addressed to the Controller, South Bend Public Transportation, 1401 S. Lafayette Blvd., South Bend, Indiana 46613.

Benefits provided: 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.

Employees covered by benefit terms: 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.

At December 31, 2016, the following employees were covered by the benefit terms:

Active employees	73
Receiving benefits	62
Terminated vested	13
	<hr style="width: 100%; border: 0.5px solid black;"/>
	148

Contributions: The Corporation's and participant's contributions are fixed amounts payable weekly. During 2016, the Corporations' 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.

Net Pension Liability: The Corporation's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. At December 31, 2016, the Plan's fiduciary net position, or fair value of Plan assets was \$7,344,946 compared to a total pension liability of \$9,160,002, resulting in a net pension liability of \$1,815,056.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - EMPLOYEE PENSION PLAN (Continued)

Actuarial assumptions. The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement date	December 31, 2016, based on a valuation date of January 1, 2016
Actuarial cost method	Entry Age Method
Inflation	2.00%
Salary increases	0.00%
Investment rate of return	6.50%, including inflation, and net of pension plan investment expense
Retirement rate	100% retirement at age 65
Disability rates	1963 category II
Mortality	RP-2014 Blue Collar with fully generational improvements from 2006, based on assumptions from the Social Security Administration's 2016 trustee report
Cost of living adjustment	Not applicable

The mortality tables used in the actuarial valuation were updated from the prior year. No other changes to actuarial assumptions were noted from the prior year.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflations. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income and cash	12%	1.8%
Domestic equity	40%	9.1%
International equity	3%	6.4%
Alternatives/bonds	45%	3.7%
Total	<u>100%</u>	

Discount rate. The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed the plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - EMPLOYEE PENSION PLAN (Continued)

Changes in net pension liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at December 31, 2015	\$ 8,928,319	\$ 7,047,799	\$ 1,880,520
Changes for the year:			
Service cost	188,699	-	188,699
Interest	572,403	-	572,403
Differences between expected and actual experience	128,624		128,624
Changes of assumptions	(36,407)		(36,407)
Benefit payments, including refunds of member contributions	(621,636)	(621,636)	-
Contributions—employer	-	199,517	(199,517)
Contributions—employee	-	115,168	(115,168)
Net investment income		671,261	(671,261)
Administrative expense	-	(67,163)	67,163
Net changes	<u>231,683</u>	<u>297,147</u>	<u>(65,464)</u>
Balances at December 31, 2016	<u>\$ 9,160,002</u>	<u>\$ 7,344,946</u>	<u>\$ 1,815,056</u>

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability, calculated using the discount rate of 6.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net pension liability	\$ 2,732,028	\$ 1,815,056	\$ 981,525

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position at December 31, 2016 is below:

Cash and cash equivalents	\$ 949,279
Mutual funds – equity	4,563,888
Mutual funds – fixed income	1,754,163
Contributions receivable	32,157
Prepaid expenses	<u>45,459</u>
	<u>\$ 7,344,946</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE 8 - EMPLOYEE PENSION PLAN (Continued)

Pension expense and deferred outflows of resources and deferred inflows of resources related to pension:
 For the year ended December 31, 2016, the Corporation recognized pension expense of \$418,564. At December 31, 2016, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 340,270	\$ -
Changes of assumptions	-	34,022
Net difference between projected and actual earnings on pension plan investments	191,028	-
Total	\$ 531,298	\$ 34,022

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	\$ Amount
2016	\$ 151,415
2017	151,415
2018	151,416
2019	27,658
2020	15,372
Thereafter	-

Payable to the Pension Plan: The Corporation had \$9,072 in contributions payable to the pension plan for the year ended December 31, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CORPORATION'S NET PENSION
LIABILITY AND RELATED RATIOS
December 31, 2016

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 188,699	\$ 140,374
Interest	572,403	539,643
Differences between expected and actual experience	128,624	349,625
Changes of assumptions	(36,407)	(5,525)
Benefit payments, including refunds of member	(621,636)	(515,258)
Net change in total pension liability	<u>231,683</u>	<u>508,859</u>
Total pension liability—beginning	<u>8,928,319</u>	<u>8,419,460</u>
Total pension liability—ending (a)	<u><u>\$ 9,160,002</u></u>	<u><u>\$ 8,928,319</u></u>
Plan fiduciary net position		
Contributions—employer	\$ 199,517	\$ 202,068
Contributions—member	115,168	116,837
Net investment income	671,261	(142,820)
Benefit payments, including refunds of member	(621,636)	(515,258)
Administrative expense	(67,163)	(67,818)
Net change in plan fiduciary net position	<u>297,147</u>	<u>(406,991)</u>
Plan fiduciary net position—beginning	<u>7,047,799</u>	<u>7,454,790</u>
Plan fiduciary net position—ending (b)	<u><u>\$ 7,344,946</u></u>	<u><u>\$ 7,047,799</u></u>
Corporation's net pension liability—ending (a) – (b)	<u><u>\$ 1,815,056</u></u>	<u><u>\$ 1,880,520</u></u>
Plan fiduciary net position as a percentage of the total pension liability	80.18%	78.94%
Covered-employee payroll	\$ 3,902,470	\$ 3,761,624
Corporation's net pension liability as a percentage of covered-employee payroll	46.51%	49.99%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Corporation is presenting information for those years for which information is available.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CORPORATION'S CONTRIBUTIONS
 December 31, 2016

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 327,950	\$ 231,195
Contributions in relation to the actuarially determined contribution	<u>(203,005)</u>	<u>(202,068)</u>
Contribution deficiency (excess)	<u>\$ 124,945</u>	<u>\$ 29,127</u>
Covered-employee payroll	\$3,902,470	\$ 3,761,624
Contributions as a percentage of covered-employee payroll	5.20%	5.37%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Corporation is presenting information for those years for which information is available.

Valuation date: Actuarially determined contribution rates are calculated as of December 31, one year prior to the fiscal year in which contributions are reported.

Actuarial cost method: Entry age method

Amortization method: Open 20-year amortization of unfunded actuarial accrued liability

Asset valuation method: Fair market value of assets on measurement date adjusted for prepaid benefits

Inflation: 2.00%

Salary increases: n/a

Investment rate of return: 6.50%, net of investment expenses

Retirement age: 100% retirement at age 65

Disability rates: 1963 Category II

Mortality: 2016 – RP-2014 Blue Collar fully generational improvements from 2006, based on assumptions from the Social Security Administration's 2016 trustee report.

2015 – RP-2006 Blue Collar fully generational, social security scale from 2015 trustee report.

Cost of living increases: Not applicable

SUPPLEMENTAL SCHEDULE

SCHEDULE OF OPERATING REVENUES, EXPENSES AND NONOPERATING ASSISTANCE

INDEPENDENT AUDITOR'S REPORT 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, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, and 2007 and our reports thereon dated August 21, 2017, August 18, 2016, July 20, 2015, July 9, 2014, June 17, 2013, May 30, 2012, May 24, 2011, May 13, 2010, May 11, 2009, and August 11, 2008, 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 operating revenues, expenses, and nonoperating revenues 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

South Bend, Indiana
August 21, 2017

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
SCHEDULE OF OPERATING REVENUES, EXPENSES AND NONOPERATING REVENUES
For the ten years ended December 31, 2016

<u>Year</u>	<u>Passenger Revenue</u>	<u>Other Revenue</u>	<u>Non-operating Revenue</u>	<u>Total Revenues</u>	<u>Operating Expenses Before Depreciation</u>	<u>Excess of Expenses Before Depreciation</u>	<u>Depreciation</u>	<u>Net Loss Before Capital Contributions</u>
2007	\$ 1,347,746	\$ 252,728	\$ 7,996,088	\$ 9,596,562	\$ 10,103,418	\$ (506,856)	\$ 2,261,505	\$ (2,768,361)
2008	1,508,793	309,555	8,611,803	10,430,151	10,202,407	227,744	2,274,118	(2,046,374)
2009	1,210,020	238,553	7,996,359	9,444,932	9,634,518	(189,586)	2,251,127	(2,440,713)
2010	1,390,353	244,033	7,022,031	8,656,687	10,326,254	(1,669,567)	2,392,607	(4,062,174)
2011	1,401,657	259,121	7,260,767	8,921,545	10,635,365	(1,713,820)	2,516,648	(4,230,468)
2012	1,427,740	249,165	7,856,032	9,532,937	10,325,963	(793,026)	3,268,620	(4,061,646)
2013	1,432,235	266,390	7,355,105	9,053,730	9,996,139	(942,409)	2,993,727	(3,936,136)
2014	1,418,049	267,194	7,579,590	9,264,833	10,138,068	(873,235)	2,853,410	(3,726,645)
2015	1,408,767	265,714	7,593,189	9,267,670	10,438,116	(1,170,446)	2,771,647	(3,942,093)
2016	1,364,468	353,010	8,099,313	9,816,791	10,233,408	(416,617)	2,698,506	(3,115,123)

The 2007 through 2014 financial information has not been adjusted for the impact of the implementation of GASB 68/71 which occurred in 2015 because information was not available to adjust expenses.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended December 31, 2016

<u>Federal Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditure</u>
Department of Transportation			
Federal Transportation Administration			
Federal Transit Cluster:			
Bus and Bus Facilities Formula Program	20.526	IN-34-X002	\$ 261,463
Federal Transit - Formula Grants	20.507	IN-90-X621	75,815
Federal Transit - Formula Grants	20.507	IN-90-X628	86,972
Federal Transit - Formula Grants	20.507	IN-90-X650	452,533
Federal Transit - Formula Grants	20.507	IN-90-X685	641,149
Federal Transit - Formula Grants	20.507	IN-90-X694	1,432,481
Federal Transit - Formula Grants	20.507	IN-95-X048	<u>2,653,804</u>
Total Federal Transit Cluster			<u>5,604,217</u>
Department of Energy			
Conservation Research and Development	81.086	DE-EE0001972	<u>244,716</u>
Total Expenditures of Federal Awards			<u>\$ 5,848,933</u>

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

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Corporation under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Corporation.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. The Corporation has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 – OTHER INFORMATION

The Corporation did not have any subrecipient activity or noncash activity during the year.

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 the South Bend Public Transportation Corporation ("Corporation") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated August 21, 2017.

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.

(Continued)

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
August 21, 2017

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 Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended December 31, 2016. 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.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Corporation's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

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, 2016.

(Continued)

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
August 21, 2017

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended December 31, 2016

Prior Audit Findings

None reported.