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August 6, 2020

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

We have reviewed the audit report of the South Bend Public Transportation Corporation (Corporation) which was opined upon by Crowe LLP, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the Corporation as of December 31, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings included in the report on pages 35 through 37. Please see the Schedule of Findings and Questioned Costs for further detail. Management's Corrective Action Plan appears immediately following page 37.

In our opinion, Crowe LLP prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner

**SOUTH BEND PUBLIC  
TRANSPORTATION CORPORATION**  
(A Component Unit of the City of South Bend)

**FINANCIAL STATEMENTS**  
December 31, 2019

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
South Bend, Indiana

FINANCIAL STATEMENTS  
December 31, 2019

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## 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), a component unit of the City of South Bend, as of and for the year ended December 31, 2019, 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, 2019, 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.

## **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, the Schedule of Changes in the Corporation's Net Pension Liability and Related Ratios on page 24, and the Schedule of the Corporation's Contributions on page 25, 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 July 28, 2020 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 LLP*

Crowe LLP

South Bend, Indiana  
July 28, 2020

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended December 31, 2019

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As management of the South Bend Public Transportation Corporation (the "Corporation"), we offer the following discussion and analysis as insight into the financial performance of the Corporation for the fiscal year ended December 31, 2019. 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).

Because 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 a component unit of the city of South Bend. 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-seven (47) 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 nineteen (19) 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, 2019 by \$29.5 million (net position).
- Fare revenues for 2019 decreased by 5% over that of the prior year.
- FTA capital contributions for 2019 decreased 23% from that of the prior year.
- Operating expenses before depreciation increased by 7% from the prior year.
- Net position decreased approximately \$2.9 million, or 9%.

## **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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended December 31, 2019

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The Corporation's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and changes in net 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 "Required Supplementary Information" and "Supplemental Schedules" sections.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended December 31, 2019

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**FINANCIAL ANALYSIS**

**Net position.** Net position may serve, over time, as a useful indicator of a corporation's financial position. At December 31, 2019, the Corporation's total assets decreased by \$2,598,455 to \$32,605,019, or approximately 7% from the prior year, primarily due to depreciation expense on capital assets outpacing current year additions. Total liabilities amounted to \$2,541,184. This represents a decrease of \$922,210 or approximately 27% from the prior year. The decrease is mainly attributed to a decrease in net pension liability of \$1,262,464 due to positive investment returns on plan assets in 2019 which also resulted in an increase to deferred inflows of resources and decrease of deferred outflows of resources related to pension compared to prior year. The Corporation's debt balances increased by \$731,457 as a result of two loans that were acquired for working capital in 2019. Consequently, net position changed to \$29,385,655. This represents a decrease of \$2,880,289 or approximately 9%.

**TABLE 1 - NET POSITION**

	<u>2019</u>	<u>2018</u>	<u>Percentage Change 2019 vs. 2018</u>
<b>Assets:</b>			
Current assets	\$ 1,262,464	\$ 1,303,074	(3) %
Noncurrent assets	945,205	1,709,205	(45) %
Capital assets (net)	<u>30,397,350</u>	<u>32,191,195</u>	<u>(6) %</u>
Total assets	<u>32,605,019</u>	<u>35,203,474</u>	<u>(7) %</u>
<b>Deferred outflows of resources</b>	<u>137,947</u>	<u>612,713</u>	<u>(77) %</u>
<b>Liabilities:</b>			
Current liabilities	1,213,649	1,155,229	5 %
Noncurrent liabilities	<u>1,327,535</u>	<u>2,308,165</u>	<u>(42) %</u>
Total liabilities	<u>2,541,184</u>	<u>3,463,394</u>	<u>(27) %</u>
<b>Deferred inflows of resources</b>	<u>816,127</u>	<u>86,849</u>	<u>840 %</u>
<b>Net position:</b>			
Net investment in capital assets	30,351,397	31,780,744	(4) %
Unrestricted	<u>(965,742)</u>	<u>485,200</u>	<u>(299) %</u>
Total net position	<u>\$ 29,385,655</u>	<u>\$ 32,265,944</u>	<u>(9) %</u>

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended December 31, 2019

**Changes in net position.** The change in net position at December 31, 2019, was a decrease of \$2,880,289. The Corporation's total operating revenues decreased by \$110,220 or approximately 7%. The Corporation's total non-operating revenues decreased by \$370,919 compared to the preceding fiscal year or approximately 4%. Total operating expenses increased by \$855,416 or approximately 7% which is mostly attributed to increased labor, professional services, and material and supplies expense in 2019 compared to 2018. The changes in net position are detailed in Table 2.

**TABLE 2 - CHANGES IN NET POSITION**

	<u>2019</u>	<u>2018</u>	Percentage Change <u>2019 vs. 2018</u>
<b>Operating revenues:</b>			
Passenger fares	\$ 1,297,248	\$ 1,367,764	(5) %
Advertising	111,990	134,303	(17) %
Miscellaneous	<u>28,152</u>	<u>45,543</u>	<u>(38) %</u>
Total operating revenues	<u>1,437,390</u>	<u>1,547,610</u>	<u>(7) %</u>
<b>Operating expenses:</b>			
Labor	5,881,356	5,636,165	4 %
Fringe benefits	2,477,494	2,442,620	1 %
Services	998,836	737,206	35 %
Materials and supplies	1,311,120	1,112,053	18 %
Utilities	255,804	252,288	1 %
Insurance	279,121	260,807	7 %
Dues and subscriptions	18,377	21,996	(16) %
Travel and meetings	16,424	10,305	59 %
Advertising and promotion	36,867	36,237	2 %
Depreciation	2,481,849	2,396,070	4 %
Other	<u>9,115</u>	<u>5,200</u>	<u>75 %</u>
Total operating expenses	<u>13,766,363</u>	<u>12,910,947</u>	<u>7 %</u>
<b>Operating loss</b>	(12,328,973)	(11,363,337)	8 %
<b>Net non-operating revenues:</b>			
Investment interest	15,773	11,840	33 %
Local government assessments and taxes	4,220,655	3,948,880	7 %
Federal grants and reimbursements	2,512,500	3,124,190	(20) %
State operating grants	2,016,701	2,030,690	(1) %
Other	<u>(57,704)</u>	<u>(36,756)</u>	<u>5 %</u>
Total non-operating revenues	<u>8,707,925</u>	<u>9,078,844</u>	<u>(4) %</u>
<b>Net loss before capital contributions</b>	(3,621,048)	(2,284,493)	58 %
Capital contributions	<u>740,759</u>	<u>968,260</u>	<u>(23) %</u>
<b>Change in net position</b>	(2,880,289)	(1,316,233)	119 %
Net position, beginning of year	<u>32,265,944</u>	<u>33,582,177</u>	<u>(4) %</u>
<b>Net position, end of year</b>	<u>\$ 29,385,655</u>	<u>\$ 32,265,944</u>	<u>(9) %</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended December 31, 2019

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** As of December 31, 2019, the Corporation had invested \$30,397,350 in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents a decrease (including additions and disposals) of \$1,793,845 or 6% (see Table 3). The most significant capital addition in 2019 was related to the purchase of vehicles. See Note 3 for further disclose on capital assets.

**TABLE 3 - CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)**

	<u>2019</u>	<u>2018</u>	Percentage Change <u>2019 vs. 2018</u>
Land	\$ 1,622,941	\$ 1,622,941	0 %
Land improvements	113,788	117,477	(3) %
Buildings and improvements	18,533,156	19,172,002	(3) %
Revenue vehicles and equipment	7,143,409	7,973,994	(10) %
Other service vehicles equipment	63,334	87,507	(28) %
Shop and garage equipment	1,648	3,879	(57) %
Furniture and office equipment	74,451	106,422	(30) %
CNG facility	<u>2,844,623</u>	<u>3,106,973</u>	<u>(8) %</u>
Total capital assets, net	<u>\$ 30,397,350</u>	<u>\$ 32,191,195</u>	<u>(6) %</u>

**Long-term debt.** As of December 31, 2019, the Corporation had \$856,357 in outstanding loan payable compared to \$124,900 at December 31, 2018. The increase in debt is attributed to two notes payable acquired in 2019 for working capital. See Note 4 for further information.

On April 2, 2020, the Corporation acquired a \$500,000 loan with a fixed interest rate of 3.75%. Principal and interest payments of \$28,628 begin on May 31, 2020. The loan has a maturity date October 31, 2021.

**CURRENTLY KNOWN FACTS**

The COVID-19 pandemic has had a significant impact on the Corporation in 2020. The Corporation temporarily ceased the Sweep route serving the campus of Notre Dame, Saint Mary's College and Holy Cross College in March 2020 (service to resume in August 2020) and a system-wide service reduction was implemented in April 2020 in response to COVID-19. Up to one-third of the Corporation's workforce was out on various leaves March through June due to COVID-19. The Corporation was able to avoid layoffs and furloughs as a recipient of the Paycheck Protection Program. Significant costs were incurred in preventative measures, increased cleaning/disinfecting protocols and ensuring Personal Protective Equipment (PPE) remains available for all employees and the general public utilizing the Corporation's services.

Prior to COVID-19, the Corporation experienced five (5) consecutive months of increasing ridership. COVID-19 had an immediate and significant impact on the Corporation's ridership (compared to 2019 monthly ridership) as noted below:

- March 2020 – Fixed Route ridership decreased 25%; Access ridership decreased 31%
- April 2020 – Fixed Route ridership decreased 70%; Access ridership decreased 47%
- May 2020 – Fixed Route ridership decreased 69%; Access ridership decreased 73%
- June 2020 – Fixed Route ridership decreased 57%; Access ridership decreased 63%

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended December 31, 2019

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The Corporation resumed the regular service schedule on July 6, 2020. While ridership is slowly increasing, it continues to be down 50% compared to the same time in 2019.

In 2020, the Corporation received \$8,505,079 in CARES Act funding which will be allocated as follows:

Replacement Fixed Route Vehicles	\$2,155,079
Rehab/Renovate Bus Terminal (security camera)	\$200,000
Fixed Route CAD/AVL Technology	\$400,000
Replacement Access Vehicles	\$600,000
Preventative Maintenance	\$500,000
Paratransit Operating Assistance	\$650,000
Fixed Route Operating Assistance	\$4,000,000

### **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, 2019

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**Current assets**

Cash and cash equivalents (Note 1)	\$ 271,478
Lease receivable - current portion (Note 2)	200,000
Grants and accounts receivable	106,852
Note receivable (Note 1)	242,750
Inventory (Note 1)	441,384
Total current assets	<u>1,262,464</u>

**Noncurrent assets**

Lease receivable (Note 2)	945,205
Non-depreciable capital assets (Note 3)	1,622,941
Depreciable capital assets, net of accumulated depreciation (Note 3)	<u>28,774,409</u>
Total capital assets	<u>30,397,350</u>
Total noncurrent assets	<u>31,342,555</u>
Total assets	<u>32,605,019</u>

**Deferred outflows of resources**

Pension (Note 8)	<u>137,947</u>
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Total assets and deferred outflows of resources \$ 32,742,966

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

**Current liabilities**

Accounts payable	\$ 260,540
Accrued payroll	40,173
Accrued compensated absences (Note 1)	130,000
Other current liabilities	115,250
Unearned revenue	118,858
Loans payable (Note 4)	<u>548,828</u>
Total current liabilities	<u>1,213,649</u>

**Noncurrent liabilities**

Accrued compensated absences (Note 1)	144,946
Loans payable (Note 4)	307,529
Net pension liability (Note 8)	<u>875,060</u>
Total noncurrent liabilities	<u>1,327,535</u>

Total liabilities 2,541,184

**Deferred inflows of resources**

Pension (Note 8)	<u>816,127</u>
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**Net position**

Net investment in capital assets	30,351,397
Unrestricted	<u>(965,742)</u>
Total net position	<u>29,385,655</u>

Total liabilities, deferred inflows of resources, and net position \$ 32,742,966

See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Year ended December 31, 2019

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<b>Operating revenue</b>	
Passenger fares	\$ 1,297,248
Advertising	111,990
Miscellaneous	<u>28,152</u>
Total operating revenue	<u>1,437,390</u>
<b>Operating expenses</b>	
Labor	5,881,356
Fringe benefits	2,477,494
Services	998,836
Materials and supplies	1,311,120
Utilities	255,804
Insurance	279,121
Dues	18,377
Travel	16,424
Advertising	36,867
Depreciation	2,481,849
Other operating expenses	<u>9,115</u>
Total operating expenses	<u>13,766,363</u>
<b>Operating loss</b>	<u>(12,328,973)</u>
<b>Non-operating revenues (expense)</b>	
Investment interest	15,773
Interest expense	(57,704)
Local government assessments and taxes (Note 5)	4,220,655
Federal grants (Note 5)	2,512,500
State operating grants (Note 5)	<u>2,016,701</u>
Total non-operating revenues (expense)	<u>8,707,925</u>
<b>Net loss before capital contributions</b>	(3,621,048)
Capital contributions - grants (Note 5)	<u>740,759</u>
<b>Change in net position</b>	(2,880,289)
Net position, beginning of year	<u>32,265,944</u>
<b>Net position, end of year</b>	<u>\$ 29,385,655</u>

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See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2019

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<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 1,229,249
Receipts from leased operations	200,000
Receipts from other operations	111,990
Payments to employees	(6,121,412)
Payments for fringe benefits	(2,541,609)
Payments for services	(1,645,452)
Payments for materials and supplies	<u>(1,330,914)</u>
Net cash used by operating activities	(10,098,148)
<b>Cash flows from noncapital financing activities</b>	
Proceeds from tax anticipation warrants	1,100,000
Repayment of tax anticipation warrants	(1,134,597)
Receipts of local government assessments and taxes	4,220,655
Receipts of federal and state government grants	4,529,201
Proceeds from loans payable	1,050,000
Interest payments on loans payable	(21,550)
Principal payments on loans payable	<u>(193,643)</u>
Net cash provided by noncapital financing activities	9,550,066
<b>Cash flows from capital and related financing activities</b>	
Purchases of capital assets	(922,963)
Capital grant receipts	1,058,422
Receipts from notes receivable	321,250
Principal payments on loan payable	<u>(124,900)</u>
Net cash provided by capital and related financing activities	331,809
<b>Cash flows from investing activities</b>	
Interest income	<u>15,773</u>
<b>Net change in cash and cash equivalents</b>	(200,500)
Cash and cash equivalents at beginning of year	<u>471,978</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 271,478</u>

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2019

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**Reconciliation of operating loss to net cash used by operating activities**

Adjustments to reconcile loss from operations to net cash used by operating activities:	\$ (12,328,973)
Depreciation	2,481,849
Change in assets and liabilities	
Accounts receivable	102,654
Lease receivable	200,000
Inventory	(19,794)
Deferred outflows of resources – pension	474,766
Accounts payable	(339,639)
Accrued payroll and compensated absences	(204,958)
Other liabilities	69,133
Net pension liability	(1,262,464)
Deferred inflows of resources – pension	<u>729,278</u>
Net cash used by operating activities	<u>\$ (10,098,148)</u>

**Supplemental schedule of noncash capital and related financing activity:**

Capital assets in accounts payable	\$ 45,953
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See accompanying notes to financial statements.

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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

Operations: South Bend Public Transportation Corporation (Corporation) is a municipal corporation established under Indiana Code 36-9-4-11 which provides transportation services for the citizens of South Bend and Mishawaka, Indiana.

Basis of Accounting: The 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 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 Directors 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). Since the Mayor of South Bend and the South Bend Common Council appoint a voting majority of the Corporation's governing body, the city of South Bend is financially accountable for the Corporation. The Corporation is also fiscally dependent on the City of South Bend which is required to approve the Corporation's annual proposed budget. As such, the Corporation is a component unit of the city of South Bend and is included in the basic financial statements of the City.

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 a \$466,580 bank balance deposited in local banks at December 31, 2019, 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, 2019.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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

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

Note Receivable: In 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 an \$850,000 promissory note payable to the Corporation due in full by January 2020. At December 31, 2019, the outstanding balance of the note receivable was \$242,750.

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, 2019, are accrued on the statement of net position.

Unearned revenue: This amount relates to Federal Transit Administration advance payments received but not yet expended on eligible costs as of December 31, 2019.

Property Tax Calendar: Property taxes for the 2019 tax levy were attached as an enforceable lien on properties as of March 1, 2019; these taxes were levied in January 2019, by passage of a tax ordinance. Tax bills were prepared by St. Joseph County and were issued in April 2019 and October 2019 and payable in May 2019 and December 2019.

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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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

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.

Subsequent Events: We have performed an analysis of the activities and transactions subsequent to December 31, 2019, to determine the need for any adjustments or disclosures to the audited financial statements for the year ended December 31, 2019. This analysis was performed through July 28, 2020, the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Corporation could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others. The Corporation received \$8,505,079 of CARES Act relief funding from the Public Health and Social Services Emergency Fund to assist with funding operations and received \$1,223,100 of Paycheck Protection Program funding to assist with payroll costs. Any funding that is not eligible to be used, will be required to be paid back.

**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), a related party, 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, 2019.

At December 31, 2019, the outstanding balance of the lease receivable was \$1,145,205. Future minimum lease payments to be received under both leases are as follows:

2020	\$ 200,000
2021	200,000
2022	200,000
2023	200,000
2024	200,000
2025	<u>145,205</u>
	1,145,205
Less: Current portion	<u>200,000</u>
Noncurrent position	<u>\$ 945,205</u>

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

**NOTE 3 - CAPITAL ASSETS**

Following are the changes in capital assets for the year ended December 31, 2019:

<u>Description</u>	<u>Balance Jan. 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2019</u>
Non-depreciable capital assets:				
Land	\$ 1,622,941	\$ -	\$ -	\$ 1,622,941
Depreciable capital assets:				
Land improvements	147,570	-	-	147,570
Buildings and improvements	31,292,740	382,268	-	31,675,008
Revenue vehicles and equipment	20,964,601	303,044	-	21,267,645
Service vehicles and equipment	408,648	-	-	408,648
Shop and garage equipment	1,556,103	-	-	1,556,103
Transit studies	566,611	-	-	566,611
Furniture and office equipment	1,256,782	2,692	(5,343)	1,254,131
CNG Station	4,192,235	-	-	4,192,235
Total depreciable capital assets	<u>60,385,290</u>	<u>688,004</u>	<u>(5,343)</u>	<u>61,067,951</u>
Less accumulated depreciation:				
Land improvements	(30,093)	(3,689)	-	(33,782)
Buildings and improvements	(12,120,738)	(1,021,114)	-	(13,141,852)
Revenue vehicles and equipment	(12,990,607)	(1,133,629)	-	(14,124,236)
Service vehicles and equipment	(321,141)	(24,173)	-	(345,314)
Shop and garage equipment	(1,552,224)	(2,231)	-	(1,554,455)
Transit studies	(566,611)	-	-	(566,611)
Furniture and office equipment	(1,150,360)	(34,663)	5,343	(1,179,680)
CNG Station	(1,085,262)	(262,350)	-	(1,347,612)
Total accumulated depreciation	<u>(29,817,036)</u>	<u>(2,481,849)</u>	<u>5,343</u>	<u>(32,293,542)</u>
Total depreciable capital assets, net of accumulated depreciation	<u>\$ 32,568,254</u>	<u>(1,793,845)</u>	<u>-</u>	<u>28,774,409</u>
Total capital assets	<u>\$ 32,191,195</u>	<u>\$ (1,793,845)</u>	<u>\$ -</u>	<u>\$ 30,397,350</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

**NOTE 4 – LONG TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2019 is as follows:

	Balance at January 1, 2019	Additions	Reductions	Balance at December 31, 2019	Amounts Due Within One Year
Promissory note	\$ -	\$ 300,000	\$ (48,780)	\$ 251,220	\$ 251,220
Operating note	-	750,000	(144,863)	605,137	297,608
Bus loan payable	124,900	-	(124,900)	-	-
Compensated absences	<u>280,641</u>	-	<u>(5,695)</u>	<u>274,946</u>	<u>130,000</u>
Total long-term liabilities	<u>405,541</u>	<u>1,050,000</u>	<u>(324,238)</u>	<u>1,131,303</u>	<u>678,828</u>

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 February 2019. The Corporation paid off the loan in full during 2019.

In February 2019, the Corporation obtained a \$750,000 promissory note for working capital. The loan requires monthly principal and interest payments of \$26,131 beginning in July 2019 and maturing on December 28, 2021. The note has a fixed interest rate of 3.40%. The outstanding balance on the loan is \$605,137 at December 31, 2019.

In May 2019, the Corporation obtained a non-revolving term loan for up to \$600,000 to assist with working capital. The loan requires monthly, principal and interest payments and has a fixed interest rate of 4.75%. During September 2019, the Corporation drew down \$300,000 and began making principal and interest payments in October 2019. The loan has a maturity date of March 31, 2021. The outstanding balance on the loan is \$251,220 at December 31, 2019. The balance was paid in full subsequent to year-end.

The Corporation's future maturities of long-term debt are as follows:

<u>Years ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 548,828	\$ 15,965	\$ 564,793
2021	<u>307,529</u>	<u>5,615</u>	<u>313,144</u>
	<u>\$ 856,357</u>	<u>\$ 21,580</u>	<u>\$ 877,937</u>

Interest expense was \$23,802 for the year ended December 31, 2019.

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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**NOTE 5 - STATE, LOCAL AND FEDERAL ASSISTANCE**

State, local and federal assistance is as follows:

Non-operating:

Local government assessments and taxes:	
Property tax appropriation	\$ 3,182,596
Other tax appropriations	<u>1,038,059</u>
Total	4,220,655
Federal grants and reimbursement:	
Federal preventive maintenance assistance grant	1,454,400
Federal operating assistance grant	<u>1,058,100</u>
Total	2,512,500
State operating assistance grant	<u>2,016,701</u>
Total state, local and federal assistance	<u>\$ 8,749,856</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, 2019 of \$2,512,500.

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, 2019 was \$2,016,701.

Capital:

The Corporation received \$740,759 of capital contributions from both federal and local sources for the year ended December 31, 2019. 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.

**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, 2019, 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 2019 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.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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**NOTE 7 - TEMPORARY LOAN TAX ANTICIPATION WARRANTS**

On January 4, 2019, the Corporation issued \$1,100,000 of tax anticipation warrants to provide short-term operating cash at an interest rate of 3.18%. The warrants are due December 31, 2019 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.

On January 4, 2020, the Corporation issued \$1,100,000 of tax anticipation warrants to provide short-term operating cash at an interest rate of 2.36%. The warrants are due December 31, 2020 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 - 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 January 1, 2019, the following employees were covered by the benefit terms:

Active plan members	79
Inactive plan members and beneficiaries currently receiving benefits	64
Inactive plan members entitled to but not yet receiving benefits	14
	<u>157</u>

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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

Contributions: The Corporation's and participant's contributions are fixed amounts payable weekly. The collective bargaining agreement was renewed in 2018 which increased the Corporations' contribution from \$54.63 per participant to \$74.63 per participant. The participant's contribution increased from \$31.50 to \$34.56 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, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019. At December 31, 2019, the Plan's fiduciary net position, or fair value of Plan assets was \$8,688,914 compared to a total pension liability of \$9,563,974, resulting in a net pension liability of \$875,060.

Actuarial assumptions. The total pension liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement date	December 31, 2019, based on a valuation date of January 1, 2019
Actuarial cost method	Entry Age Method
Amortization method	Open 20 year amortization of unfunded actuarial accrued liability
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.00%
Salary increases	Not applicable
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 2018 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, 2019, are summarized in the following table:

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Money market funds	22%	2.0%
Domestic equity	24%	10.0%
International equity	6%	6.0%
Alternatives/bonds	48%	3.0%
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.

Changes in net pension liability:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
<b>Balances at December 31, 2018</b>	\$ 9,480,038	\$ 7,342,514	\$ 2,137,524
<b>Changes for the year:</b>			
Service cost	204,283	-	204,283
Interest	610,649	-	610,649
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(113,266)	-	(113,266)
Changes of assumptions	(38,278)		(38,278)
Benefit payments, including refunds of member contributions	(579,452)	(579,452)	-
Contributions—employer	-	306,955	(306,955)
Contributions—employee	-	141,065	(141,065)
Net investment income		1,564,362	(1,564,362)
Administrative expense	-	(86,530)	86,530
<b>Net changes</b>	<u>83,936</u>	<u>1,346,400</u>	<u>(1,262,464)</u>
<b>Balances at December 31, 2019</b>	<u>\$ 9,563,974</u>	<u>\$ 8,688,914</u>	<u>\$ 875,060</u>

(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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

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:

	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
Net pension liability	\$ 1,864,123	\$ 875,060	\$ 33,715

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position at December 31, 2019 is below:

Mutual funds – equity	\$ 6,274,558
Mutual funds – fixed income	1,475,054
Money market fund	153,652
Guaranteed investment fund - fixed	695,966
Contributions receivable	42,227
Prepaid expenses	47,717
Accounts payable	(260)
	<u>\$ 8,688,914</u>

Pension expense and deferred outflows of resources and deferred inflows of resources related to pension: For the year ended December 31, 2019, the Corporation recognized pension expense of \$248,535. At December 31, 2019, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 137,947	\$ 121,687
Changes of assumptions	-	63,641
Net difference between projected and actual earnings on pension plan investments	-	630,799
Total	\$ 137,947	\$ 816,127

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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

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:	<u>\$ Amount</u>
2020	\$ (165,440)
2021	(177,726)
2022	(65,664)
2023	(244,096)
2024	(25,254)

*Payable to the Pension Plan:* The Corporation had \$3,882 in contributions payable to the pension plan for the year ended December 31, 2019.

**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, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>					
Service cost	\$ 204,283	\$ 184,035	\$ 190,177	\$ 188,699	\$ 140,374
Interest	610,649	595,524	589,499	572,403	539,643
Change of benefit terms	-	561	-	-	-
Differences between expected and actual experience	(113,266)	61,335	(68,249)	128,624	349,625
Changes of assumptions	(38,278)	(21,761)	(14,079)	(36,407)	(5,525)
Benefit payments, including refunds of member contributions	(579,452)	(635,072)	(561,934)	(621,636)	(515,258)
Net change in total pension liability	83,936	184,622	135,414	231,683	508,859
Total pension liability—beginning	9,480,038	9,295,416	9,160,002	8,928,319	8,419,460
<b>Total pension liability—ending (a)</b>	<b>\$ 9,563,974</b>	<b>\$ 9,480,038</b>	<b>\$ 9,295,416</b>	<b>\$ 9,160,002</b>	<b>\$ 8,928,319</b>
<b>Plan fiduciary net position</b>					
Contributions—employer	\$ 306,955	\$ 240,438	\$ 201,242	\$ 199,517	\$ 202,068
Contributions—member	141,065	124,647	116,509	115,168	116,837
Net investment income	1,564,362	(341,559)	1,021,652	671,261	(142,820)
Benefit payments, including refunds of member contributions	(579,452)	(635,072)	(561,934)	(621,636)	(515,258)
Administrative expense	(86,530)	(85,720)	(82,635)	(67,163)	(67,818)
Net change in plan fiduciary net position	1,346,400	(697,266)	694,834	297,147	(406,991)
Plan fiduciary net position—beginning	7,342,514	8,039,780	7,344,946	7,047,799	7,454,790
<b>Plan fiduciary net position—ending (b)</b>	<b>\$ 8,688,914</b>	<b>\$ 7,342,514</b>	<b>\$ 8,039,780</b>	<b>\$ 7,344,946</b>	<b>\$ 7,047,799</b>
<b>Corporation's net pension liability—ending (a) – (b)</b>	<b>\$ 875,060</b>	<b>\$ 2,137,524</b>	<b>\$ 1,255,636</b>	<b>\$ 1,815,056</b>	<b>\$ 1,880,520</b>
Plan fiduciary net position as a percentage of the total pension liability	90.85%	77.45%	86.49%	80.18%	78.94%
Covered payroll	\$ 4,389,892	\$ 4,259,785	\$ 3,997,402	\$ 3,902,470	\$ 3,761,624
Corporation's net pension liability as a percentage of covered payroll	19.93%	50.18%	31.41%	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, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 354,807	\$ 281,872	\$ 311,813	\$ 327,950	\$ 231,195
Contributions in relation to the actuarially determined contribution	<u>(340,458)</u>	<u>(197,434)</u>	<u>(201,418)</u>	<u>(203,005)</u>	<u>(202,068)</u>
Contribution deficiency (excess)	<u>\$ 14,349</u>	<u>\$ 84,438</u>	<u>\$ 110,395</u>	<u>\$ 124,945</u>	<u>\$ 29,127</u>
Covered payroll	\$ 4,389,892	\$ 4,259,785	\$ 3,997,402	\$ 3,902,470	\$ 3,761,624
Contributions as a percentage of covered payroll	7.76%	4.63%	5.04%	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:* Not applicable

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

*Retirement age:* 100% retirement at age 65

*Disability rates:* 1963 Category II

*Mortality:* RP-2014 Blue Collar fully generational improvements from 2006, based on assumptions from the Social Security Administration's 2019 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, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, and 2010 and our reports thereon dated July 28, 2020, August 19, 2019, August 20, 2018, August 21, 2017, August 18, 2016, July 20, 2015, July 9, 2014, June 17, 2013, May 30, 2012, and May 24, 2011, 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 LLP*  
Crowe LLP

South Bend, Indiana  
July 28, 2020

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
SCHEDULE OF OPERATING REVENUES, EXPENSES AND NONOPERATING REVENUES  
For the ten years ended December 31, 2019

<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>
2010	1,390,353	244,033	7,022,031	8,656,417	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)
2017	1,341,274	325,439	8,251,724	9,918,437	10,357,759	(439,322)	2,447,611	(2,886,933)
2018	1,367,764	179,846	9,078,844	10,626,454	10,514,877	111,577	2,396,070	(2,284,493)
2019	1,297,248	140,142	8,707,925	10,145,315	11,284,514	(1,139,199)	2,481,849	(3,621,048)

The 2008 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, 2019

<u>Federal Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditure</u>
<b>Department of Transportation</b>			
<b>Federal Transportation Administration</b>			
Direct:			
Federal Transit Cluster:			
Bus and Bus Facilities Formula Program	20.526	IN-34-0042	\$ 107,110
Bus and Bus Facilities Formula Program	20.526	IN-34-0037	232,099
Federal Transit Formula Grants	20.507	IN-90-X714	120,703
Federal Transit Formula Grants	20.507	IN-90-X650	205
Federal Transit Formula Grants	20.507	IN-90-X685	15,122
Federal Transit Formula Grants	20.507	IN-90-X694	17,473
Federal Transit Formula Grants	20.507	IN-90-X731	491,608
Federal Transit Formula Grants	20.507	IN-90-X741	2,086,000
Federal Transit Capital Investment Grants	20.500	IN-04-0053	<u>184,580</u>
Total Federal Transit Cluster			3,254,900
Transit Services Program Cluster:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	IN-16-X035	<u>1,400</u>
Total Expenditures of Federal Awards			<u>\$ 3,256,300</u>

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

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2019

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**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, 2019. 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 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 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"), a component unit of the city of South Bend, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated July 28, 2020.

### **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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2019-001).

## **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*.

## **The Corporation's Response to the Finding**

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 LLP*

Crowe LLP

South Bend, Indiana  
July 28, 2020

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), a component unit of the city of South Bend, 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, 2019. 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.

***Basis for Qualified Opinion on the Federal Transit Cluster***

As described in the accompanying schedule of findings and questioned costs, the Corporation did not comply with requirements regarding CFDA 20.500, Federal Transit Capital Investment Grant, as described in finding number 2019-002 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the Corporation to comply with the requirements applicable to that program.

***Qualified Opinion on the Federal Transit Cluster***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Federal Transit Cluster for the year ended December 31, 2019.

### **Other Matter**

The Corporation's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-002, that we consider to be a material weakness.

The Corporation's response to the internal control over compliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 LLP*  
Crowe LLP

South Bend, Indiana  
July 28, 2020

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year ended December 31, 2019

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**Section I – Summary of Auditor’s Results**  
**Financial Statements**

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes      X   No

Significant deficiencies identified not considered to be material weaknesses?

  X   Yes    \_\_\_\_\_ None Reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified?

  X   Yes    \_\_\_\_\_ No

Significant deficiencies identified not considered to be material weaknesses?

\_\_\_\_\_ Yes      X   None Reported

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

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

  X   Yes    \_\_\_\_\_ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Federal Transit Cluster:
20.500	Federal Transit – Capital Investment Grants
20.507	Federal Transit - Formula Grants
20.526	Bus and Bus Facilities Formula Program

Dollar threshold used to distinguish between Type A and Type B programs:    \$750,000

Auditee qualified as low-risk auditee?

  X   Yes    \_\_\_\_\_ No

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2019

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**Section II – Financial Statement Findings**

**Finding 2019-001 – Preparation of Schedule of Expenditures of Federal Awards and Recognition of Grant Revenue**

**Criteria:** The preparation of financial statements and supplementary information should have internal controls in place to accurately and timely report financial and grant activity.

**Condition:** During our testing of the financial statements, we noted errors on the presentation of the Schedule of Expenditures of Federal Awards (SEFA) and the recognition of federal grant revenues due to accounting treatment of grant draws made during the year and by not accruing eligible grant expenditures. An adjustment to reduce federal expenditures reported on the SEFA was necessary for \$79,400 and an adjustment to reduce net grant revenues and to record an unearned revenue liability for \$118,858 was required.

**Context:** During our testing of the SEFA we noted a draw of grant funds was made in May 2019 on Project Number IN-04-0053 for \$80,000. The draw did not have a corresponding expenditure but was included on the SEFA. Therefore, the draw should have been treated as an advance draw of funds with no recognition on the SEFA. We also noted a credit adjustment of \$600 was eligible for reimbursement on the SEFA. The net overstatement of the SEFA was \$79,400.

During our testing of the reconciliation of the SEFA to federal grant revenue (Project Number IN-04-0053) recognized during the year, we noted that management drew down \$80,000, as described above, and another \$100,000 in May 2019 and recognized federal grant revenue. The draws did not have related eligible grant expenditures. We also noted \$62,142 of eligible grant expenditures that were not recorded as revenue but were included on the SEFA. The resulting in an audit adjustment of \$118,858 to decrease federal grant revenue and increase unearned revenue liability at December 31, 2019.

**Effect:** Amounts reported on the SEFA and financial statement amounts were inaccurate.

**Cause:** The above condition appears to be the result of ineffective internal controls over cash management, recognition of revenue and review of documentation supporting grant expenditures which did not prevent advance payments for amounts not expended. Also, the review controls surrounding the SEFA and quarterly grant reconciliations did not identify the errors and result in corrective action in a timely manner during the year.

**Repeat Finding:** No

**Recommendation:** We recommend management implement a reconciliation of federal grant expenditures to federal grant revenues on a quarterly basis and investigate any variances timely to take corrective action. Controls surrounding grant cash management and draw downs should also be reviewed to ensure draw down amounts are calculated accurately and supported by valid, allowable expenditures under the award which have been incurred.

**Views of responsible officials and planned corrective action:** Management agrees with the finding. See separately published corrective action plan.

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2019

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**Section III – Federal Award Findings and Questioned Costs**

**Finding 2019-002 – Cash Management**

**Information on the Federal Program:** Federal Transit Cluster (CFDA Numbers 20.500, 20.507, 20.526)  
– U.S. Department of Transportation – Federal Transit Administration

**Criteria:** Provisions in 2 CFR § 200.305 and 31 CFR part 205 govern payments to recipients for financing operations under federal assistance and other programs. These regulations require that advance payment to a recipient be limited to the minimum amounts needed and timed to be in accord with only the actual, immediate cash requirements of the recipient in carrying out the purpose of the Award. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the recipient for direct program or costs of the Award and the proportionate share of any allowable indirect costs. The recipient must make timely payment to third-party contractors in accordance with the third-party contract provisions.

**Condition: CFDA 20.500 Project Number IN-04-0053** - During our testing of cash management, we noted three instances where cash management internal controls were not effective resulting in a material noncompliance for one capital investment grant. We also noted the lack of effective internal controls over the review of federal draws.

- 1) We noted one instance in which \$80,000 of funds were drawn down in advance with no eligible expenditure transactions to support the claim for reimbursement as of the date of the claim in May 2019.
- 2) We noted one instance in which \$100,000 of funds were drawn down in advance with no eligible expenditure transactions to support the claim for reimbursement as of the date of the claim in May 2019.
- 3) We also noted one instance in which \$95,618 of funds were drawn for reimbursement in May 2019 for services incurred and invoice received in May. However, the disbursement to the vendor was not made until December 2019.

**Questioned Cost:** \$0

**Context:** During our testing of cash management, we selected 8 of 17 drawdowns during the year in our non-statistical sample to test for controls and compliance surrounding the cash management process. We noted in 3 of the 8 drawdowns selected for testing that there was no documented approval of the draw down by someone other than the preparer or approval after the draw was made.

- 1) We noted one draw on May 9, 2019 for \$100,000 which lacked appropriate approval. Per inquiry of management, the draw down was mistakenly drawn from Project Number IN-04-0053 which does not allow preventative maintenance and should have been drawn from Project Number IN-90-X731 which allows preventative maintenance draws. The draw documentation was supported by maintenance department income statement activity through April 30, 2019.
- 2) One draw on May 29, 2019 for \$80,000, related to Project Number IN-04-0053, did not have a corresponding expense transaction incurred upon the date of the draw. The draw had approval signature but no approval date was documented.
- 3) We also noted an instance in which a draw down was made on May 16, 2019 for \$95,618 based on an invoice for bus shelters and signage dated May 9, 2019. The draw was approved but the approval date was May 28, 2019. The payment for the invoice was issued on December 26, 2019 resulting in an approximate 7-month lag between the federal funds being received and the expenditure being paid

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(Continued)

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2019

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

**Finding 2019-002 – Cash Management (Continued)**

**Effect:** The Corporation may not be in compliance with federal regulations and could be required to make repayment to the FTA and/or be required to remit interest earned on excess federal assistance. The reporting of quarterly federal financial reporting will need to be updated and corrected.

**Cause:** The review control in place to ensure draw down amounts calculated are accurate and supported by incurred expenditures was not operating effectively.

**Repeat Finding:** No.

**Recommendation:** We recommend management review internal controls surrounding the cash management to ensure draw down amounts are calculated and approved by the General Manager prior to executing payment request. All payment requests should be supported by paid expenditures of the Corporation. If advance payments are needed on grant funds, the advance payment should be as close as is administratively feasible to the actual disbursement by the Corporation.

**Views of responsible officials and planned corrective action:** Management agrees with the finding. The \$100,000 draw down on May 9, 2019 was intended to be drawn down for preventative maintenance allowed under a separate award, however, was incorrectly drawn from Project Number IN-04-0053. Management initiated a refund to FTA through the pay.gov website on July 17, 2020 for the \$118,858 balance not spent as of December 31, 2019. See separately published corrective action plan.



SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
CORRECTIVE ACTION PLAN OF CURRENT YEAR FINDINGS  
December 31, 2019

**Finding 2019-001 – Preparation of Schedule of Expenditures of Federal Awards and Recognition of Grant Revenue**

**Condition:** During the financial statement audit, exceptions were noted within the Schedule of Expenditures of Federal Awards (SEFA) and the recognition of federal grant revenues due to accounting treatment of grant draws made during the year and by not accruing eligible grant expenditures. An adjustment to reduce federal expenditures reported on the SEFA was necessary for \$79,400 and an adjustment to reduce net grant revenues and to record an unearned revenue liability for \$118,858 was required.

**Views of responsible officials and planned corrective action:** Management agrees with the finding. The corrective action plan will require documentation evidencing eligible expenses have been incurred prior to drawing down grant funds. A grant review meeting will take place prior to drawing down any grant funds. The Controller and General Manager & CEO will review eligible grant expenditures and ensure proper documentation is in place prior to the draw. A summary of all grant expenditures will be provided to the Transpo Board of Directors Finance Committee for review.

**Responsible party and timeline for completion:** The General Manager & CEO will be responsible for the corrective action plan with an implementation date of December 31, 2020.

**Finding 2019-002 – Cash Management**

**Condition: CFDA 20.500 Project Number IN-04-0053** - During the testing of cash management, three instances were noted where cash management internal controls were not effective resulting in a material noncompliance for one capital investment grant. There was also a lack of effective internal controls over the review of federal draws.

- 1) One instance in which \$80,000 of funds were drawn down in advance with no eligible expenditure transactions to support the claim for reimbursement as of the date of the claim in May 2019.
- 2) One instance in which \$100,000 of funds were drawn down in advance with no eligible expenditure transactions to support the claim for reimbursement as of the date of the claim in May 2019.
- 3) One instance in which \$95,618 of funds were drawn for reimbursement in May 2019 for services incurred and invoice received in May. However, the disbursement to the vendor was not made until December 2019.

**Views of responsible officials and planned corrective action:** Management agrees with the finding. The \$100,000 draw down on May 9, 2019 was intended to be drawn down for preventative maintenance allowed under a separate award, however, was incorrectly drawn from Project Number IN-04-0053. Management initiated a refund to FTA through the pay.gov website on July 17, 2020 for the \$118,858 balance not spent as of December 31, 2019. The corrective action plan will include a grant review meeting prior to the approval and draw down of any funds. This will include documentation that an eligible expense has been incurred, funds will be drawn from the corresponding grant and that all funds will be disbursed in a timely manner. The review and approval will take place prior to any draws. A summary of all grant expenditures will be provided to the Transpo Board of Directors Finance Committee.

**Responsible party and timeline for completion:** The General Manager & CEO will be responsible for the corrective action plan with an implementation date of December 31, 2020.



***transpo***

*south bend public  
transportation corporation*

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION  
SCHEDULE OF PRIOR YEAR FINDINGS  
December 31, 2019

No findings were noted in the prior year.