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October 20, 2023

Board of Directors
Urban Enterprise Association of South Bend, Inc.
227 W. Jefferson Blvd
Suite 1200 S.
South Bend, IN 46601

We have reviewed the audit report of Urban Enterprise Association of South Bend, Inc., which was opined upon by DWC CPAs LLC, Independent Public Accountants, for the period January 1, 2022 to December 31, 2022. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Urban Enterprise Association of South Bend, Inc. as of December 31, 2022 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, DWC CPAs LLC 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 cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

FINANCIAL REPORT

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.

December 31, 2022 and 2021

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Audit, Accounting, Tax & Advisory

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Urban Enterprise Association of South Bend, Inc.
South Bend, Indiana

Opinion

We have audited the financial statements of Urban Enterprise Association of South Bend, Inc., which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban Enterprise Association of South Bend, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Urban Enterprise Association of South Bend, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Urban Enterprise Association of South Bend, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override

of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Urban Enterprise Association of South Bend, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Urban Enterprise Association of South Bend, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

DWC CPAs LLC

South Bend, Indiana
September 28, 2023

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets:		
Cash and cash equivalents	\$ 2,331,721	\$ 796,238
Commercial paper	-	965,630
Due from City of South Bend	1,050,000	1,875,000
Rents receivable, net of allowance for doubtful accounts of \$472 for 2022 and 2021	1,499	2,808
Prepaid assets	5,996	4,208
Leasing commissions	8,914	1,878
Property and equipment, net	-	-
<i>Total assets</i>	<u>\$ 3,398,130</u>	<u>\$ 3,645,762</u>
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	\$ 39,752	\$ 25,781
Tenant security deposits	21,492	17,241
Deferred revenues	7,626	11,788
Agency funds	2,874,950	3,108,113
<i>Total liabilities</i>	<u>2,943,820</u>	<u>3,162,923</u>
Net Assets, without donor restrictions	<u>454,310</u>	<u>482,839</u>
<i>Total liabilities and net assets</i>	<u>\$ 3,398,130</u>	<u>\$ 3,645,762</u>

The accompanying notes are an integral part of these financial statements.

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Support, Revenues, and Gains:		
Revenues from contracts with customers:		
Enterprise Zone fees	\$ 31,563	\$ 35,189
Rents and auxiliary revenues	591,287	492,636
Interest income	523	1,716
Other	725	714
<i>Total support, revenues, and gains</i>	<u>624,098</u>	<u>530,255</u>
 Expenses:		
Program services expenses:		
Business complex	636,313	573,642
Supporting services expenses:		
Management and general	<u>16,314</u>	<u>36,058</u>
<i>Total expenses</i>	<u>652,627</u>	<u>609,700</u>
 Change in net assets	 (28,529)	 (79,445)
Net assets, beginning of year	<u>482,839</u>	<u>562,284</u>
<i>Net assets, end of year</i>	<u>\$ 454,310</u>	<u>\$ 482,839</u>

The accompanying notes are an integral part of these financial statements.

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2022 and 2021

	2022			2021		
	<u>Business Complex</u>	<u>Management and General</u>	<u>Totals</u>	<u>Business Complex</u>	<u>Management and General</u>	<u>Totals</u>
Management fees	\$ 82,220	\$ -	\$ 82,220	\$ 70,429	\$ -	\$ 70,429
Professional fees	-	11,583	11,583	75	14,234	14,309
Administrative	7,592	4,617	12,209	6,376	651	7,027
Insurance	34,664	114	34,778	34,821	1,173	35,994
Postage	3,485	-	3,485	4,299	-	4,299
Telephone	2,384	-	2,384	2,356	-	2,356
Utilities	298,288	-	298,288	261,405	-	261,405
Security	12,425	-	12,425	15,725	-	15,725
Snow and trash removal	17,290	-	17,290	17,279	-	17,279
Repairs and maintenance	152,250	-	152,250	131,579	-	131,579
Janitorial	16,000	-	16,000	16,444	-	16,444
Lease commissions	5,563	-	5,563	8,625	-	8,625
Bad debt expense	2,888	-	2,888	2,452	-	2,452
Contract services	-	-	-	-	20,000	20,000
Other	1,264	-	1,264	1,777	-	1,777
<i>Totals</i>	<u>\$ 636,313</u>	<u>\$ 16,314</u>	<u>\$ 652,627</u>	<u>\$ 573,642</u>	<u>\$ 36,058</u>	<u>\$ 609,700</u>

The accompanying notes are an integral part of these financial statements.

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Change in Cash and Cash Equivalents:		
Cash Flows from Operating Activities:		
Change in net assets	\$ (28,529)	\$ (79,445)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Decrease in due from City of South Bend	825,000	50,000
Decrease in rents receivable	1,309	791
(Increase) decrease in prepaid assets	(1,788)	21,094
(Increase) in leasing commissions	(7,036)	(1,878)
Increase (decrease) in accounts payable and accrued expenses	13,971	(23,829)
Increase in tenant security deposits	4,251	2,516
Increase (decrease) in deferred revenues	(4,162)	6,362
(Decrease) in agency funds	(233,163)	(4,378)
<i>Net cash provided by operating activities</i>	<u>569,853</u>	<u>(28,767)</u>
Cash Flows from Investing Activities:		
Proceeds from maturities of commercial paper	<u>965,630</u>	<u>(1,659)</u>
Net change in cash and cash equivalents	1,535,483	(30,426)
Cash and cash equivalents, beginning of year	<u>796,238</u>	<u>826,664</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 2,331,721</u>	<u>\$ 796,238</u>

The accompanying notes are an integral part of these financial statements.

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Urban Enterprise Association of South Bend, Inc. (the Organization) is an Indiana nonprofit corporation organized to coordinate development activities in the Urban Enterprise Zone of South Bend (the Zone) to increase the number of jobs in the Zone by encouraging and assisting the retention, improvement, and expansion of new and existing businesses in the Zone. The Organization's operations are supported primarily by Enterprise Zone fees and rents from its Sample Street Business Complex (the Complex).

The Enterprise Zone was designated locally and approved by the State of Indiana, and initially designated for ten years with a five-year renewal period ending December 31, 2018. A second renewal was approved with an expiration date of December 31, 2023.

Significant Accounting Policies:

Use of Estimates:

Management uses estimates and assumptions in preparing the financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results could differ from those estimates.

A significant estimate used in the accompanying financial statements is the allocation of costs between the program and supporting service, which is based on time studies and other methods of cost allocation.

Net Asset Classes:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
- *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

Commercial Paper:

Commercial paper is a longer-term cash instrument purchased through a bank which packages short-term corporate notes with maturities of more than three months and less than one year. Commercial paper is carried at cost, which approximates the fair market value of these notes.

Rents Receivable:

The Organization rents office, manufacturing, and warehouse space under various terms to incubator tenants in its Sample Street Business Complex. Rent is recognized ratably over the term of the leases.

Receivables are stated at the outstanding principal balances, net of any charge-offs and an allowance for doubtful accounts based upon the specific identification of receivables where collection is no longer deemed probable and an allowance based upon the level of total receivables. In determining the allowance, management evaluates the payment history and other known information for individual accounts, historical losses, and current economic conditions. Individual accounts are charged-off against the allowance in the period that the receivable is deemed uncollectible. Recoveries of receivables previously charged-off are recorded as income in the period received. The Organization does not charge interest on its receivables.

Property and Equipment:

Property and equipment are stated at cost if purchased or at fair value at the date of receipt, if donated, less accumulated depreciation. Property acquired with grant funds, in which the proceeds from any disposition must be returned to the grantor is expensed in the period acquired. Depreciation is computed over the estimated useful lives of the assets by using the straight-line method. Expenditures for maintenance and repairs are charged to expense as incurred.

Capital asset classes are estimated to have the following useful lives:

	<u>Useful Lives</u>
Building	20-31 years
Tenant improvements	5-31 years
Warehouse and office equipment	5-10 years

Revenue and Revenue Recognition:

Enterprise Zone Fees:

Under Indiana law, businesses may receive property and income tax credits. If they elect to receive the credits, they must pay a specified portion of the credits to the Organization as fees. Revenue from Zone fees is recognized in the period in which the related tax credits take effect. Enterprise Zone fees received in advance are recorded as a liability and are reported as deferred revenues in the statements of financial position.

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Rents and Auxiliary Revenues:

Rent revenue is recognized as revenue over the term of leasing contracts, which are generally on a month-to-month basis. Rent revenue received in advance is recorded as a liability and is reported as deferred revenues in the statements of financial position. Auxiliary revenues include common area maintenance charges and other chargeable expenses to tenants which are recognized over the term of leasing contracts.

Performance obligations:

A performance obligation is a promise in a contract with a customer to transfer a distinct good or service. All of our contracts with customers are considered to have a single performance obligation, whereby we provide a service or product to our customers. Performance obligations are satisfied upon completion of a service. Payment is received after the service is completed for the Enterprise Zone fees and at the beginning of the month for rent.

Functional Allocation of Expenses:

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function and report certain categories of expenses that are attributed to more than one program or supporting function. The expenses that are allocated are administrative services which are allocated on the basis of estimates of time and effort.

Income Taxes:

The Organization is exempt from income tax under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana Code, except for tax on income derived from business activities that are unrelated to our exempt purpose. The Organization has been determined to not be a private foundation under Internal Revenue Code Section 509(a)(1).

A tax benefit from an uncertain tax position is recognized only if it is more likely than not that the position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Examples of tax positions include our tax-exempt status and positions related to the potential sources of unrelated business taxable income. The Organization has not identified any uncertain tax positions taken or expected to be taken in a tax return, and there are no unrecognized tax benefits recorded as liabilities in the accompanying financial statements. The Organization classifies interest and penalties, if any, associated with uncertain tax positions as a component of income tax expense, and there was no accrued interest or any penalties related to unrecognized tax benefits at either December 31, 2022 or 2021, or any interest or penalties expense related to unrecognized tax benefits for the years then ended. The Organization is no longer subject to examination by the Internal Revenue Service or the State of Indiana for years prior to 2019.

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Subsequent Events:

The date through which events occurring subsequent to December 31, 2022 have been evaluated for possible adjustment to the financial statements or disclosure is September 28, 2023, the date on which the financial statements were available to be issued.

NOTE 2. RELATED PARTY INFORMATION

The Organization's administrative office is in the City of South Bend Office of the Department of Community Investment. The City of South Bend, through its Department of Community Investment, contracts with the Organization for staff services. Per approved contracts, expenses for services of \$0 and \$20,000 were charged to the Organization by the City of South Bend for the years ending December 31, 2022 and 2021, respectively. \$0 and \$20,000 were payable to the City of South Bend for the years ending December 31, 2022 and 2021, respectively.

City of South Bend has contracted with the Organization to be the fiscal agent for several City of South Bend programs. Agency funds on the statements of financial position represents funds held by the Organization for these programs of \$2,874,950 and \$3,108,113 at December 31, 2022 and 2021, respectively. City of South Bend owes the Organization \$1,050,000 and \$1,875,000 for the years ending December 31, 2022 and 2021, respectively for payments for these programs.

NOTE 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

Financial assets available for general expenditure (that is, without donor or other restrictions limiting their use) within one year are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$2,331,721	\$ 796,238
Commercial paper	-	965,630
Due from City of South Bend	1,050,000	1,875,000
Rents receivable	<u>1,499</u>	<u>2,808</u>
<i>Total financial assets available for general expenditure</i>	<u>\$3,383,220</u>	<u>\$3,639,676</u>

As part of its liquidity management, the Organization monitors its available financial assets on a weekly basis to ensure it maintains a balance to meet general expenditures, liabilities and other obligations as they are due.

URBAN ENTERPRISE ASSOCIATION OF SOUTH BEND, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 4. PROPERTY AND EQUIPMENT AND IMPAIRMENT

	<u>2022</u>	<u>2021</u>
Land	\$ 63,180	\$ 63,180
Sample Street Business Complex building and improvements	4,862,926	4,862,926
Warehouse and office equipment	<u>54,060</u>	<u>54,060</u>
	4,980,166	4,980,166
Less accumulated depreciation	(2,851,123)	(2,851,123)
Less allowance for impairment	<u>(2,129,043)</u>	<u>(2,129,043)</u>
<i>Net property and equipment</i>	<u>\$ -</u>	<u>\$ -</u>

In December 2009, the Organization agreed to sell the Complex for \$1, subject to certain conditions. Consequently, an impairment loss of \$2,129,043 was recognized for the book value of the Complex. The agreement was canceled; however, the property is still for sale.

NOTE 5. LEASE COMMITMENTS

The Organization has entered into various operating lease agreements with tenants as of December 31, 2022 and 2021. There are no minimum future cash rents receivable on non-cancelable leases.

The leases generally require reimbursement of the tenant's proportionate share of common area and other operating expenses. In addition, the leases include various rent escalation clauses which are subject to future usage.

NOTE 6. CONCENTRATIONS OF RISK

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization had cash on deposit with one financial institution that exceeded the federal deposit insurance coverage limit by approximately \$2,365,000 and \$513,000 at December 31, 2022 and 2021, respectively.

For the year ended December 31, 2022, rents from the Complex comprised approximately 95% of the total revenue. For the year ended December 31, 2021, rents from the Complex comprised approximately 93% of the total revenue.

The Organization's activities are concentrated in St. Joseph County, Indiana. Accordingly, its Enterprise Zone fees, rents, and other sources of support and revenue may be affected by conditions in that area.