B35163

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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November 20, 2009

Board of Directors
Muncie Urban Enterprise
Association, Inc.
407 S. Walnut
Muncie, IN 47305

We have reviewed the audit report prepared by Gauthier & Kimmerling, LLC, Independent Public Accountants, for the period October 1, 2004 to September 30, 2005. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Muncie Urban Enterprise Association, Inc., as of September 30, 2005, and the results of its operations for the period then ended, on the basis of accounting described in the report except for the effects of such adjustments, if any, as might have been determined to be necessary had they been able to examine additional evidence regarding special event revenue.

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

We call your attention to the findings in the report. The management letter contains three comments.

STATE BOARD OF ACCOUNTS

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.

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Gauthier & Kimmerling, LLC
Accountants & Advisors
One Jackson Square • 233 S. McCrea Street • Suite 1000 • Indianapolis, IN 46225 • (317) 636-3265

Independent Auditors' Report

Board of Directors
Muncie Urban Enterprise Association, Inc.
Muncie, Indiana

We have audited the accompanying statement of financial position of Muncie Urban Enterprise Association, Inc. (the Association) as of September 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain and examine evidence supporting income from special events beyond recorded amounts. Recorded income from special events is limited to cash receipts deposited into the Association's bank account.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine additional evidence regarding special event revenue, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of September 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2006, on consideration of the Association'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Gauthier & Kimmerling, LLC

December 12, 2006

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2005

ASSETS

Cash	$ 55,610
Business loans receivable (Note 6)	377
Facade loans receivable (Note 5)	1,172,230
Home Ownership loans receivable (Note 4)	208,612
Property held for sale	278,657
Property and equipment, net of accumulated depreciation (Note 7)	354,304
Total Assets	$ 2,069,790

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	$ 15,120
Cash overdraft	1,911
Deposits	6,612
Notes payable (Note 10)	167,705
Deferred revenue (Note 9)	7,122
Total Liabilities	198,470
Net Assets:	
Unrestricted net assets	1,871,320
Total Liabilities and Net Assets	$ 2,069,790

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

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

REVENUE	
Grant revenue	$ 22,922
Facade contract revenue	174,251
Contributions	211,109
Special event revenue	136,637
Downpayment assistance	31,000
Rental income	7,492
Interest income	138
Other income	27,515
Gain on sale of asset	5,773
Total Revenue	616,837
EXPENSES	
Program Expenses:	
Home Ownership	53,261
Downtown Development	291,523
Facade program	174,245
Total Program Expenses	519,029
Administrative Expenses:	
Home Ownership	73,909
Downtown Development	241,597
Total Administrative Expenses	315,506
Total Expenses	834,535
Increase (decrease) in net assets	(217,698)
Net Assets, October 1, 2004	2,089,018
Net Assets, September 30, 2005	$ 1,871,320

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

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.
COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ (217,698)
Adjustments to reconcile net assets to net cash provided by (used in) operations:	
Amortization expense	182,750
Depreciation	11,094
Forgiveness of business loans	46,475
Loss on sale of assets	(5,773)
Decrease (Increase) in grants receivable	50,000
Increase (Decrease) in deposits	(3,096)
Increase (Decrease) in accounts payable	(2,114)
Increase (Decrease) in cash overdraft	(8,970)
Increase (Decrease) in deferred revenue	(174,251)
Net Cash Provided by (Used in) Operating Activities	(121,583)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of properties held for sale	(87,779)
Proceeds from properties held for sale	145,793
Repayment of business loans	13,219
Repayment of Home Ownership loans	3,833
Repayment of notes receivable - The Lodge	26,353
Issuance of Facade loans	(173,297)
Issuance of Home Ownership loans	(29,197)
Purchase of equipment	(1,182)
Net Cash Provided by (Used in) Investing Activities	(102,257)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment on term loan	(1,967)
Proceeds from term loan	70,000
Net Cash Provided by (Used in) Financing Activities	68,033
Net Increase (Decrease) in Cash	(155,807)
Cash Balance - October 1, 2004	211,417
Cash Balance - September 30, 2005	$ 55,610
Interest paid during the year	$ 5,980

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

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

1. NATURE OF THE ORGANIZATION

Muncie Urban Enterprise Association, Inc., (the Association) was formed in 1988 to promote economic development and creation of jobs. The Association is comprised of three separate components or programs that provide unique benefits to the City of Muncie, Indiana.

The Home Ownership Development Program's mission is to help improve existing neighborhoods by increasing home ownership opportunities for individuals and families. The program provides instruction and financial assistance to qualifying first-time homebuyers through loans and grants for new construction and rehabilitation.

The Downtown Development Program's mission is to help promote and attract guests to downtown Muncie. The program promotes and sponsors many special events within downtown Muncie.

The Façade Program is a program through the Association in cooperation with the Muncie Community Development Commission (MCDC) to improve the facades of buildings in downtown Muncie. In 2003, the program received $1,500,000 from the MCDC to provide assistance to owners of commercial properties in improving the facades of their building through loans and grants for rehabilitation. The Association administers the program on behalf of the City and all records of the program are maintained in the MCDC office.

2. SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of accounting</u> – These financial statements are prepared on the accrual basis of accounting. Generally, revenues are recognized when earned and expenses are recognized when the goods or services are rendered.

<u>Cash and cash equivalents</u> – For purposes of the statement of cash flows, financial instruments with a maturity of three months or less are considered to be cash equivalents.

<u>Grant Revenue</u> – Grant proceeds are used for operating support and, therefore, are recorded as unrestricted revenue when received.

<u>Contributions</u> – The City of Muncie contributes funds to Downtown Development to assist in the operating expenses of the program.

<u>Grant Receivables</u> – Grant revenue expected to be received shortly after year-end is recorded as a receivable.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans Receivable – Loans are stated at the principal amount outstanding. Interest is computed on loans, when in default, at the option of the Association's Board of Directors. Accrued interest on loans in default is not recorded in the financial statements due to the uncertainty of collectibility. The Association establishes an allowance for uncollectible loans based on management's evaluation of collectibility of outstanding loans receivable. At September 30, 2005, management believed that all loans were fully collectible and no allowance was necessary.

Property Held for Sale – Property held for sale consists of inner-city real estate being developed by the Association and is stated at cost.

Property Plant and Equipment – Buildings, improvements and equipment owned by the Association are recorded at cost. Depreciation is computed by the straight-line method over the useful life of the assets, ranging from five to forty years. Maintenance and repairs are expensed as they are incurred.

Deferred Revenue – Facade contract receipts are being reported as being earned when payments are made to contractors. All unspent contract receipts are reported as deferred revenue.

Income Taxes – The Association is a non-profit organization currently exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. Actual results could differ from these estimates.

3. CONCENTRATION OF CREDIT RISK

The Association maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances at times may exceed federally insured limits. The Association has not experienced any losses in these accounts and management believes that it is not exposed to any significant credit risk on cash and cash equivalents.

4. HOME OWNERSHIP LOANS RECEIVABLE

- Forgivable - Loans have been made to individuals and families to assist them in making a down payment on the purchase of a home. Loans of $5,000 or less are forgivable in five years and loans in excess of $5,000 are forgivable in ten years after the date of the loan as long as the terms of the loan agreement have been followed. At September 30, 2005, thirty-three loans totaling $150,301 were outstanding. During the year ended September 30, 2005, the Association amortized $24,473 of forgivable loans.

(Continued)

4. HOME OWNERSHIP LOANS RECEIVABLE - Continued

- Non-forgivable – Loans have been made to individuals and families to assist them in the purchase of a home. Loans are payable in monthly installments at an interest rate of 10% if in default. At September 30, 2005, seven loans totaling $58,311 were outstanding.

5. FACADE LOANS RECEIVABLE

Façade loans are provided to commercial owners to assist them in rehabilitating the facades of their respective establishments. The first $100,000 of the loan is forgiven in five years with the remaining balance being forgiven in years six through ten. The loans are secured by a second mortgage on the property. At September 30, 2005, eleven loans totaling $1,218,530 were outstanding including $46,300 which is due from Downtown Development. During the year ended September 30, 2005, the Association amortized $173,710 of Facade loans.

6. BUSINESS LOANS RECEIVABLE

The Association grants loans to businesses located in specific areas of Muncie, Indiana. Loans receivable consist of the following at September 30, 2005:

Loan receivable from ET Company, LLC, due September 15, 2006. The loan is payable in monthly installments of $377 with interest at 5% and is secured by a mortgage.	$ 377

In 2005, Downtown Development wrote-off business loans totaling $46,475.

7. PROPERTY AND EQUIPMENT

As of September 30, 2005, property and equipment consists of the following:

	Home Ownership	Downtown Development	Facade Program	Total
Furniture and equipment	$ 4,151	$ 13,435	$ -	$ 17,586
Buildings	-	68,887	-	68,887
Improvements	-	320,214	-	320,214
Total cost	4,151	402,536	-	406,687
Less: accumulated depreciation	2,815	49,568	-	52,383
Net: carrying amount	$ 1,336	$ 352,968	$ -	$ 354,304

8. OPERATING LEASE

The Association leases a copy machine. The lease commenced on October 1, 2003, with a 60 month term ending September 30, 2008. The lease requires monthly payments of $518. As of September 30, 2005, the expense of the lease was $8,488.

9. DEFERRED REVENUE

Below is a summary of the usage of Facade contract funds for the year ended September 30, 2005:

Unearned revenue at October 1, 2004	$ 181,373
Construction costs paid	173,297
Administrative costs	954
Total Costs	174,251
Unspent proceeds	$ 7,122

10. NOTES PAYABLE

On April 8, 2005, the Association obtained a $100,000 term note from Star Financial Bank. The note provides interest to be calculated at prime rate plus 2.00% (7.75 % at September 30, 2005) with an expiration date of April 8, 2006. As of September 30, 2005 the outstanding loan balance is $97,705.

On September 21, 2005, the Association borrowed $70,000 from First Merchants Bank. The uncollateralized note provides interest to be calculated at prime plus 4.00% (10.75% at September 30, 2005) with an expiration date of October 21, 2005. As of September 30, 2005 the outstanding loan balance is $70,000.

11. RELATED PARTY TRANSACTIONS

Downtown Development received a loan of $77,166 from the Façade Program to rehabilitate the façade of the building. The loan is a forgivable loan that will mature in five years. Downtown Development will recognize grant revenue in the amount of the amortized loan. In 2005, Downtown Development reported $15,433 of grant revenue pertaining to the façade loan.

In 2005, Downtown Development forgave $86,568 of payables due from Home Ownership.

12. SUBSEQUENT EVENTS

In November 2005, the MCDC notified the Association that the loans receivable on the books of the Home Ownership books, excluding the down payment loans, are to be forgiven. Accordingly, Home Ownership wrote-off $58,312 of loans at that time.

(Continued)

12. SUBSEQUENT EVENTS - Continued

In November 2006, the Association's Board of Directors voted to dissolve the operations of Downtown Development as of December 31, 2006. All special event activities associated with Downtown Development, going forward, will be managed by Heart of the City, a 501(c)(3) organization. Individuals employed by Downtown Development will become employees of Heart of the City. All fixed assets and debt of Downtown Development will remain with the Association. Heart of the City has agreed to lease office space from the Association at a rate of $1,200 per month. The Façade Program and the Home Ownership Development Program will remain with the Association.

ADDITIONAL INFORMATION

Gauthier & Kimmerling, LLC
Accountants & Advisors
One Jackson Square • 233 S. McCrea Street • Suite 1000 • Indianapolis, IN 46225 • (317) 636-3265

Independent Auditors' Report

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

We have audited the statement of financial position of the Muncie Urban Enterprise Association, Inc. as of September 30, 2005, and the related statements of activities and cash flows for the year then ended. Our report thereon appears on page 1.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, results of operations, and cash flows of the individual units. The combining information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. As described in our report on the financial statements, we were unable to obtain and examine evidence supporting income from special events beyond recorded amounts.

Gauthier + Kimmerling, LLC

December 12, 2006

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Home Ownership	Downtown Development	Facade Program	Combining Total	Eliminations	Total
ASSETS						
Cash	$ 11,659	$ 27,885	$ 16,066	$ 55,610	$ -	$ 55,610
Business loans receivable	-	377	-	377	-	377
Facade loans receivable	-	-	1,218,530	1,218,530	46,300	1,172,230
Home Ownership loan receivable	208,612	-	-	208,612	-	208,612
Property held for sale	278,657	-	-	278,657	-	278,657
Property and equipment, net of accumulated depreciation	1,336	352,968	-	354,304	-	354,304
Total Assets	$500,264	$ 381,230	$1,234,596	$2,116,090	$ 46,300	$2,069,790
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts payable	$ -	$ 15,120	$ -	$ 15,120	$ -	$ 15,120
Cash overdraft	1,911	-	-	1,911	-	1,911
Deposits	-	-	6,612	6,612	-	6,612
Notes payable	-	167,705	-	167,705	-	167,705
Facade loan payable	-	46,300	-	46,300	46,300	-
Deferred revenue	-	-	7,122	7,122	-	7,122
Total Liabilities	1,911	229,125	13,734	244,770	46,300	198,470
Net Assets:						
Net Assets - Uunrestricted	498,353	152,105	1,220,862	1,871,320	-	1,871,320
Total Liabilities and Net Assets	$500,264	$ 381,230	$1,234,596	$2,116,090	$ 46,300	$2,069,790

See Auditors' Report.

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Home Ownership	Downtown Development	Facade Program	Combining Total	Eliminations	Total
REVENUE						
Grant revenue	$ 17,922	$ 20,433	$ -	$ 38,355	$ 15,433	$ 22,922
Facade contract revenue	-	-	174,251	174,251	-	174,251
Contributions	-	211,109	-	211,109	-	211,109
Downpayment assistance	31,000	-	-	31,000	-	31,000
Rental income	7,492	-	-	7,492	-	7,492
Interest income	-	-	138	138	-	138
Event income	-	136,637	-	136,637	-	136,637
Other income	-	27,515	-	27,515	-	27,515
Forgiveness of inter-program debt	86,568	-	-	86,568	86,568	-
Gain on sale of asset	5,773	-	-	5,773	-	5,773
Total Revenue	148,755	395,694	174,389	718,838	102,001	616,837
EXPENSES						
Program Expenses:						
Property expenses	39,311	-	-	39,311	-	39,311
Consulting expense	3,485	-	-	3,485	-	3,485
Credit reports	1,425	-	-	1,425	-	1,425
Event expenses	-	254,555	-	254,555	-	254,555
Downtown promotions	-	17,906	-	17,906	-	17,906
Downtown improvements	-	18,783	-	18,783	-	18,783
Other payroll related expenses	-	279	-	279	-	279
Legal fees	-	-	377	377	-	377
Other fees	-	-	158	158	-	158
Amortization of forgivable loans	24,473	-	173,710	198,183	15,433	182,750
Total Program Expenses	68,694	291,523	174,245	534,462	15,433	519,029

(Continued)

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(CONTINUED)

	Home Ownership	Downtown Development	Facade Program	Combining Total	Eliminations	Total
ADMINISTRATIVE EXPENSES						
Legal and professional fees	$ 558	$ 21,426	$ -	$ 21,984	$ -	$ 21,984
Office supplies	2,686	4,797	-	7,483	-	7,483
Equipment maintenance	293	-	-	293	-	293
Utilities	309	9,804	-	10,113	-	10,113
Telephone	975	3,937	-	4,912	-	4,912
Insurance	4,532	3,707	-	8,239	-	8,239
Postage and shipping	126	37	-	163	-	163
Equipment rental	-	8,488	-	8,488	-	8,488
Building maintenance	-	3,832	-	3,832	-	3,832
Salaries and wages	45,308	101,164	-	146,472	-	146,472
Payroll tax expense	3,466	7,739	-	11,205	-	11,205
Employee benefit programs	1,942	5,058	-	7,000	-	7,000
Other payroll related expenses	650	-	-	650	-	650
Banking fees	-	1,273	-	1,273	-	1,273
Dues	533	-	-	533	-	533
Conference, meeting and travel	3,899	-	-	3,899	-	3,899
Interest	-	10,748	-	10,748	-	10,748
Donation	-	250	-	250	-	250
Other expenses	8,201	2,199	-	10,400	-	10,400
Depreciation	431	10,663	-	11,094	-	11,094
Forgiveness of business loans	-	46,475	-	46,475	-	46,475
Forgiveness of inter-program debt	-	86,568	-	86,568	86,568	-
Total Administrative Expenses	73,909	328,165	-	402,074	86,568	315,506
Total Expenses	142,603	619,688	174,245	936,536	102,001	834,535
Increase (decrease) in net assets	6,152	(223,994)	144	(217,698)	-	(217,698)
Net Assets, October 1, 2004	492,201	376,099	1,220,718	2,089,018	-	2,089,018
Net Assets, September 30, 2005	$498,353	$ 152,105	$1,220,862	$1,871,320	$ -	$1,871,320

See Auditors' Report.

MUNCIE URBAN ENTERPRISE ASSOCIATION, INC.
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Home Ownership	Downtown Development	Facade Program	Combining Total	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Change in Net Assets	$ 6,152	$ (223,994)	$ 144	$ (217,698)	$ -	$ (217,698)
Adjustments:						
Amortization expense	24,473	-	173,710	198,183	15,433	182,750
Depreciation	431	10,663	-	11,094	-	11,094
Facade grant revenue	-	(15,433)	-	(15,433)	(15,433)	-
Forgiveness of debt	-	46,475	-	46,475	-	46,475
Loss on sale of assets	(5,773)	-	-	(5,773)	-	(5,773)
Changes in assets and liabilities:						
Decrease (Increase) in grants receivable	50,000	-	-	50,000	-	50,000
Decrease (Increase) in intercompany receivable	-	86,568	-	86,568	86,568	-
Increase (Decrease) in deposits	-	-	(3,096)	(3,096)	-	(3,096)
Increase (Decrease) in intercompany payable	(86,568)	-	-	(86,568)	(86,568)	-
Increase (Decrease) in accounts payable	(8,251)	6,137	-	(2,114)	-	(2,114)
Increase (Decrease) in cash overdraft	(8,970)	-	-	(8,970)	-	(8,970)
Increase (Decrease) deferred revenue	-	-	(174,251)	(174,251)	-	(174,251)
Net Cash Provided by (Used in) Operating Activities	(28,506)	(89,584)	(3,493)	(121,583)	-	(121,583)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of properties held for sale	(87,779)	-	-	(87,779)	-	(87,779)
Proceeds from properties held for sale	145,793	-	-	145,793	-	145,793
Repayment of business loans	-	13,219	-	13,219	-	13,219
Repayment of home ownership loans	3,833	-	-	3,833	-	3,833
Repayment of notes receivable - The Lodge	-	26,353	-	26,353	-	26,353
Issuance of facade loans	-	-	(173,297)	(173,297)	-	(173,297)
Issuance of home ownership loans	(29,197)	-	-	(29,197)	-	(29,197)
Purchase of equipment	-	(1,182)	-	(1,182)	-	(1,182)
Net Cash Provided by (Used in) Investing Activities	32,650	38,390	(173,297)	(102,257)	-	(102,257)
CASH FLOWS FROM FINANCING ACTIVITIES						
Payment on term loan	-	(1,967)	-	(1,967)	-	(1,967)
Proceeds from term loan	-	70,000	-	70,000	-	70,000
Net Cash Provided by (Used in) Financiang Activities	-	68,033	-	68,033	-	68,033
Net Increase (Decrease) in Cash	4,144	16,839	(176,790)	(155,807)	-	(155,807)
Cash balance - October 1, 2004	7,515	11,046	192,856	211,417	-	211,417
Cash balance - September 30, 2005	$ 11,659	$ 27,885	$ 16,066	$ 55,610	$ -	$ 55,610
Interest Paid During the Year	$ -	$ 10,748	$ -	$ 10,748	$ -	$ 10,748

See Auditors' Report.

gk
Gauthier & Kimmerling, LLC
Accountants & Advisors
One Jackson Square • 233 S. McCrea Street • Suite 1000 • Indianapolis, IN 46225 • (317) 636-3265

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*

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

We have audited the financial statements of the Muncie Urban Enterprise Association (the Association) as of and for the years ended September 30, 2003, 2004 and 2005, and have issued our report thereon dated December 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Association's ability to initiate, record, process, and report financial data consistent with assertions of management in the financial statements. Reportable conditions are described as follows.

During our audits, we noted that there were inconsistencies in the accounting, both between programs and within programs. This can be explained by the fact that a number of different accountants maintained the records, either as an employee of the Association or as staff within the outside accounting firm. Management of the Association did not appear to provide the necessary oversight of the accounting function to ensure consistency abd thoroughness. Examples of issues resulting from this condition are as follows:

- Incomplete payroll records
- Missing documentation for loans
- Missing documentation for various expenditures
- Incomplete documentation for, and approval of, inter-program transactions
- Recurring transactions being recorded to different accounts

Controls regarding special events were lacking, especially regarding revenue. A formal control procedure must be established in order to properly reconcile income received compared to admissions sold. These controls should include, but not limited to, reports detailing tickets provided to ticket sellers, cash received and unsold tickets returned. In addition, controls regarding the handling, posting and depositing of cash should be implemented. All funds should be deposited into the bank account in a timely manner.

Board minutes were maintained in a disorganized manner. Board minutes should be taken at every board meeting and approved by the Board at the next meeting. All approved minutes should be maintained in a single location in chronological order. In addition, minutes should include all pertinent information pertaining to the Association, which includes but not limited to, approval of salaries and wages, funding issues, contract approvals and election of officers.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by certain employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider the matters pertaining to payroll documentation, support for expenditures and controls regarding special events to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non compliance 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 that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use by the Association's Board of Directors, management, and grantors and is not intended to be and should not be used by anyone other than these specified parties.

Gauthier & Kimmerling LLC

December 12, 2006