B35638

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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January 28, 2010

Board of Directors
Downtown South Bend, Inc.
217 S. Michigan St.
South Bend, IN 46601

We have reviewed the audit report prepared by Jurgonski & Fredlake, CPAs, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. 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 Downtown South Bend, Inc., as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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 four comments.

STATE BOARD OF ACCOUNTS

DOWNTOWN SOUTH BEND, INC.

FINANCIAL REPORT

December 31, 2008

C O N T E N T S

Jurgonski & Fredlake CPAs
418 W. Jefferson Blvd., South Bend, Indiana 46601

Office (574) 251-1414
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Greg Jurgonski
John A. Fredlake

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Downtown South Bend, Inc.
South Bend, Indiana

We have audited the accompanying statement of financial position of Downtown South Bend, Inc. (a not for profit organization) (the Organization) as of December 31, 2008 and the related statements of activities, expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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. 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 statement of financial position presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Downtown South Bend, Inc. as of December 31, 2008, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Jurgonski + Fredlake CPAs

South Bend, Indiana
January 16, 2009

DOWNTOWN SOUTH BEND, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2008

ASSETS	
Current assets	
Cash and cash equivalents	$ 208,523
Grants receivable	53,804
Accounts receivable	710
Prepaid expenses	20,908
Total current assets	283,945
Fixed assets	
Furniture and equipment	49,961
Less accumulated depreciation	(45,206)
Net fixed assets	4,755
Total assets	$ 288,700
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	$ 114,197
Total current liabilities	114,197
Net assets	
Unrestricted	138,763
Temporary restricted	35,740
Total net assets	174,503
Total liabilities and net assets	$ 288,700

See Notes to Financial Statements.

DOWNTOWN SOUTH BEND, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2008

REVENUE	Unrestricted	Temporary Restricted	Total
City of South Bend TIF and CIP income	$ 446,444	$ 35,740	$ 482,184
Corporate partners	124,751		124,751
Parking income	47,703		47,703
Special events income	88,756		88,756
Other income	9,987		9,987
Net assets released from restrictions	32,432	(32,432)	
Total revenue	750,073	3,308	753,381
EXPENSES	691,460		691,460
Change in net assets	58,613	3,308	61,921
Net assets, beginning of year	80,150	32,432	112,582
Net assets, end of year	$ 138,763	$ 35,740	$ 174,503

See Notes to Financial Statements.

DOWNTOWN SOUTH BEND, INC.

STATEMENT OF EXPENSES

For the Year Ended December 31, 2008

Salaries and wages	$ 71,173
Payroll taxes and employee benefits	12,479
Telephone and internet	3,447
Office expense	15,716
Rent and utilities	21,350
Depreciation	3,232
Property taxes	1,750
Liability insurance	7,404
Beautification, maintenance and cleaning expenses	248,812
Hospitality and safety expenses	52,429
Parking lot expenses	9,138
Façade and streetscape expenses	56,260
Marketing and promotions	60,532
Special events	93,455
Advertising	6,217
Web site design and maintenance	2,200
Bad debt expense	947
Professional fees	9,936
Accounting fees	6,865
Bank fees	908
Payroll fees	1,770
Miscellaneous	5,440
Total expenses	$ 691,460

See Notes to Financial Statements.

DOWNTOWN SOUTH BEND, INC.

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 61,921
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,232
Change in assets increase:	
Grants and accounts receivable	(4,894)
Prepaid expenses	(16,757)
Change in liabilities increase:	
Accounts payable	40,719
Net adjustments	22,300
Net cash provided by operating activities	84,221
Net increase in cash and cash equivalents	84,221
Cash and cash equivalents - beginning of year	124,302
Cash and cash equivalents - end of year	$ 208,523

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities:

Downtown South Bend, Inc. (the Organization) is a not for profit public/private partnership with the City of South Bend working to make downtown a great place to work, play, live and shop. The Organization continually strives to improve the community's long term viability by providing creative marketing and promotions, effective redevelopment and recruitment initiatives, successful business retention programs and visible beautification projects.

The Organization is primarily funded by local government grants and business contributions.

Significant Accounting Policies:

Basis of Accounting – The Organization utilizes the accrual basis of accounting. The accrual method of accounting recognizes revenues when earned. Expenses are recognized when incurred.

Financial Statement Presentation – Financial statement presentations follow the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not for Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Fair Value Measurements - Effective January 1, 2008, the Organization adopted SFAS No. 157, Fair Value Measurements. In February 2008, the FASB issued Staff Position ("FSP") 157-2, Effective Date of FASB Statement No. 157*,* which provides a one year deferral of the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Therefore, the Organization has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only and the adoption did not materially impact the financial statements. Management believes the adoption of SFAS No.157 for nonfinancial assets and liabilities also will not have a material impact on the financial statements.

Estimates –The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents – The Organization considers cash and bank certificates of deposit to be cash equivalents.

Grants Receivable – The Organization received grants for reimbursement of expenses incurred. A receivable for the reimbursement of allowable program expenditures due from grantors of $53,804 has been recorded at December 31, 2008. No allowance for uncollectible grants has been recorded.

Accounts Receivable – Receivables are recorded at the amount the Organization expects to collect on balances outstanding at year end. Management closely monitors outstanding balances and writes off, as of year end, all balances that have not been deemed collectible by the time the financial statements are issued. Management feels that all outstanding receivables at year end are collectable and therefore no allowance has been set up.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Contributions - Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions.

Furniture and Equipment – Furniture and equipment received as a donation is recorded and reflected in the accompanying financial statements at its fair market value as of the date received. These donations of furniture and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Purchased furniture and equipment is stated at cost. Maintenance and repairs are charged to expense as incurred while major renewals and betterments are capitalized. When equipment is sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Depreciation is computed using accelerated methods over the estimated useful lives of the assets three to seven years.

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Note 2. Income Taxes Status

The Organization operates as a not for profit corporation under Internal Revenue code Section 501 (c)(6) and a similar section of the Indiana tax law, which provides exemption from federal and state income taxes.

Note 3. Support from Major Funding Source / Concentration of Credit Risk

The Organization receives a substantial amount of its support from local government. A significant reduction of the level of support, if this were to occur, may have a significant effect on the Organization's programs and activities.

The Organization places its cash with a high credit quality financial institution. However, the amount of credit exposure to a financial institution is in excess of the insurable limits established by law, or $250,000.

Note 4. Restrictions on Assets

Temporarily restricted net assets at December 31, 2008 represent the following:

Façade expenses	$ 29,835
Equipment expenses	5,905

$ 35,740

DOWNTOWN SOUTH BEND, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Advertising

The Organization expenses the production cost of advertising the first time the advertising takes place. Advertising expense was $6,217 for the year ended December 31, 2008.

Note 6. Fundraising

The Organization received support from fundraising events totaling $88,756, and incurred fundraising expenses totaling $ 93,455, for the year ended December 31, 2008.

Note 7. Operating Lease

In June, 2008, the Organization entered into a new nineteen month lease for their office space in South Bend, Indiana beginning July 1, 2008. The lease requires monthly payments of $1,344 plus utilities, insurance and maintenance. The minimum future lease commitments for the year ending December 31 are: 2009 $16,130 and 2010 $1,344.

Memorandum of Advisory Comments and Other Required Communications

Downtown South Bend, Inc.

January 16, 2009

To the Board of Directors
Downtown South Bend, Inc.
South Bend, Indiana

In planning and performing our audit of the financial statements of Downtown South Bend, Inc. (the Organization) as of and for the year ended December 31, 2008, in accordance with the auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the Unites States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies not to be significant deficiencies in internal control:

Current and prior year findings:

Accounting Policy and Procedure Manual

We noted that the Organization has made significant progress towards an accounting policy and procedures manual but needs to complete it. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees some accounting functions management performs. It will take some time and effort for management to complete the manual; however, we believe this time will be more than offset by time saved later in training and supervising personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

Segregation of Duties

The size of the Organization's staff precludes certain internal control procedures that would be preferred if the staff were large enough to provide optimum segregation of duties. We recommend that the appropriate management staff and that the Board of Directors remain involved in the financial affairs in order to provide oversight and independent review functions.

Cancel Invoices and Supporting Documents

The Organization does not have a policy of canceling invoices and supporting documentation at the time the invoices are paid. Thus, the invoices are susceptible to unintentional duplicate payment or intentional misuse. A simple control against those dangers is to only pay from originals invoices and to mark invoices with a "paid" stamp or other indication of payment while they are in the custody of the check preparer or signer. Such a procedure would add very little time to the bill paying process but would serve as prevention against misuse or repayment of the invoices.

Approval of the Bank Reconciliation

The bank account is being reconciled monthly by the contract bookkeeper and is being reviewed and approved. However, there is no evidence of this happening. We recommend that the reconciliation be initialed and dated to indicate approval.

Required Communications

We have audited the financial statements of Downtown South Bend, Inc. as of December 31, 2008 and have issued our report thereon dated January 16, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated December 10, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the statement of financial position is free of material misstatement and is fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Organization. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimate is the depreciation expense.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There was one significant audit adjustment to write off a receivable.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our financial audit.

We were pleased to serve Downtown South Bend, Inc. as its independent auditors for 2008 and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities and would be pleased to discuss this letter or any matters further, should you desire.

This report is intended solely for the information and use of the Board of Directors, Downtown South Bend, Inc. management, and others within the Center and is not intended to be and should not be used by anyone other than these specified parties.

Jurgonski & Fredlake CPAs

South Bend, Indiana
January 16, 2009