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October 18, 2011

Board of Directors  
Near North Development  
Corporation and Subsidiaries  
2123 N. Meridian St.  
Indianapolis, IN 46202

We have reviewed the audit report prepared by Gauthier & Kimmerling, LLC, Independent Public Accountants, for the period July 1, 2008 to June 30, 2009. 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 Near North Development Corporation and Subsidiaries, as of June 30, 2009, 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 finding in the report. The Summary Schedule of Prior Audit Findings contains the status of one prior audit finding.

STATE BOARD OF ACCOUNTS

**NEAR NORTH DEVELOPMENT  
CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2009 AND 2008**

NEAR NORTH DEVELOPMENT CORPORATION  
AND SUBSIDIARIES

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**Gauthier & Kimmerling, LLC**  
accountants & advisors

233 S. McCrea Street • Suite 1000 • Indianapolis, IN 46225 • (317) 636-3265

Independent Auditors' Report

Board of Directors  
Near North Development  
Corporation  
Indianapolis, Indiana

We have audited the accompanying consolidated statements of financial position of Near North Development Corporation and its subsidiaries (NNDC) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NNDC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 NNDC's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NNDC as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years 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 October 30, 2009, on our consideration of NNDC'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 audits.

*Gauthier & Kimmerling, LLC*

October 30, 2009

**NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30,**

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	2009	2008
<b><u>ASSETS</u></b>		
Cash	\$ 198,578	\$ 192,819
Accounts receivable	8,192	99,206
Grants receivable	41,800	71,579
Notes receivable, net of an allowance of \$0 and \$659,559 (Note 5)	-	-
Prepaid expenses	380	12,334
Certificates of deposit	150,000	152,081
Office equipment, net (Note 6)	4,962	8,431
Rental property, net (Note 6)	203,256	1,688,453
Property under development, net (Note 7)	931,538	628,791
Investments in subsidiaries (Note 4)	-	200
Escrows (Note 9)	-	13,561
Reserves (Note 9)	-	163,033
Capitalized costs (Note 10)	-	41,624
	<u>\$ 1,538,706</u>	<u>\$ 3,072,112</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Accounts payable	\$ -	\$ 63,229
Notes payable (Note 8)	462,277	1,923,230
Deferred grant revenue	288,339	194,237
Other liabilities	17,841	26,656
	<u>768,457</u>	<u>2,207,352</u>
Total Liabilities	768,457	2,207,352
Unrestricted net assets	<u>770,249</u>	<u>864,760</u>
Total Liabilities and Net Assets	<u>\$ 1,538,706</u>	<u>\$ 3,072,112</u>

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

**NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30,**

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b><u>REVENUES</u></b>						
Grant revenue	\$ 146,715	\$ 883,203	\$ 1,029,918	\$ 345,425	\$ 820,061	\$ 1,165,486
Contributions	10,276	-	10,276	38,588	-	38,588
Rental income	120,678	-	120,678	112,294	-	112,294
Reimbursement income	-	-	-	24,119	-	24,119
Interest	24,153	-	24,153	49,001	-	49,001
Gain on sale of land	73,000	-	73,000	-	-	-
Other	25,070	-	25,070	29,332	-	29,332
Total revenue	399,892	883,203	1,283,095	598,759	820,061	1,418,820
Net assets released from restrictions	883,203	(883,203)	-	824,538	(824,538)	-
Total Revenue and Support	1,283,095	-	1,283,095	1,423,297	(4,477)	1,418,820
<b><u>EXPENSES</u></b>						
Home ownership program (Note 7)	35,782	-	35,782	274,919	-	274,919
Homeowner assistance	377,960	-	377,960	187,553	-	187,553
Rental property expenses	418,679	-	418,679	641,329	-	641,329
Development expenses	150,437	-	150,437	162,263	-	162,263
Administrative expenses	345,981	-	345,981	388,793	-	388,793
Total Expenses	1,328,839	-	1,328,839	1,654,857	-	1,654,857
Change in net assets before sale of member interest	(45,744)	-	(45,744)	(231,560)	(4,477)	(236,037)
Sale of member interest (Note 14)	(48,767)	-	(48,767)	-	-	-
Change in net assets	(94,511)	-	(94,511)	-	-	-
Net assets - beginning of year	864,760	-	864,760	1,096,320	4,477	1,100,797
Net assets - end of year	\$ 770,249	\$ -	\$ 770,249	\$ 864,760	\$ -	\$ 864,760

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

**NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30,**

	2009	2008
<b><u>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</u></b>		
Changes in net assets	\$ (94,511)	\$ (236,037)
Adjustment to reconcile net assets to net cash provided by (used in) operations:		
Depreciation and amortization	72,344	93,434
(Gain) loss on sale of property	(47,218)	213,919
Loss on sale of member interest	48,767	-
Impairment loss	-	100,000
Bad debt expense	36,735	76,080
Increase (decrease) in valuation allowance	10,000	61,000
(Increase) decrease in accounts and grants receivable	52,462	(139,661)
(Increase) decrease in prepaid expenses	4,242	(1,331)
(Increase) decrease in escrows	(3,649)	(540)
Increase (decrease) in accounts payable	(21,489)	(1,616)
Increase (decrease) in deferred grant revenue	94,102	(164,801)
Increase (decrease) in other liabilities	10,748	11,623
	<u>162,533</u>	<u>12,070</u>
Cash Flows Provided By (Used In) Operating Activities		
<b><u>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</u></b>		
Transfer of cash on sale of member interest	(81,003)	-
Proceeds from sale of member interest	120,900	-
Increase in property under development	(351,729)	(291,120)
(Increase) decrease in due from partnerships	-	22,282
Purchase of furniture and equipment	(1,503)	(2,571)
Additions to rental property	-	(253,924)
(Increase) decrease in notes receivable	-	177,047
Deposits to reserves	(80,988)	(26,104)
Withdrawals from reserves	14,328	47,387
Proceeds from sale of properties	88,200	271,900
(Increase) decrease in investments in subsidiaries	200	48,000
(Purchase) sales of certificates of deposit	2,081	(152,081)
	<u>(289,514)</u>	<u>(159,184)</u>
Cash Flows Provided By (Used In) Investing Activities		
<b><u>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</u></b>		
Proceeds from borrowings	340,971	144,738
Debt repayments	(208,231)	(381,359)
	<u>132,740</u>	<u>(236,621)</u>
Cash Flows Provided by (Used In) Financing Activities		
Net increase (decrease) in cash	5,759	(383,735)
Cash - beginning of year	192,819	576,554
Cash - end of year	<u>\$ 198,578</u>	<u>\$ 192,819</u>
Interest paid during the year	<u>\$ 84,561</u>	<u>\$ 111,803</u>

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

NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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1. NATURE OF THE ORGANIZATION

Near North Development Corporation (NNDC) was formed in 1977 to stimulate development and revitalization within a specified area of the City of Indianapolis.

During the year, NNDC was actively involved in:

- acquiring, renovating, and subsequently selling properties to eligible low-income individuals,
- renting rehabilitated properties to eligible individuals,
- making home repairs for eligible homeowners, and
- operating a low-income housing project.

NNDC receives funding from many organizations including the City of Indianapolis, Indianapolis Neighborhood Housing Partnership, and Local Initiative Support Corporation (LISC).

Through a subsidiary corporation, NNDC served as a general partner in a partnership that provided rental housing to qualified low-income individuals (See Note 4, below).

NNDC was the sole member of a limited liability corporation that owned and operated a project-based Section 8 housing development (See Note 14, below).

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the results of operations and account balances of NNDC and its wholly owned subsidiaries, KP III, Inc. (KP III), Kenwood V, Inc. (Kenwood V), Caravelle Commons, LLC (Caravelle), and Gateway Project, Inc. (Gateway). All significant intercompany balances and transactions have been eliminated.

Grant proceeds used for operating support are recorded as unrestricted revenue when received. Other grant proceeds are recorded as restricted revenue when received pending the release of donor-imposed restrictions, usually as eligible expenditures are made. Grant proceeds related to costs capitalized as properties held for resale are recorded as deferred revenue until the property is sold. Unspent proceeds of operating support grants are included in deferred revenue.

Permanent financing costs are capitalized and amortized over the term of the related mortgage on a straight-line basis.

For purposes of the statements of cash flows, NNDC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Because of their longer maturity, certificates of deposit are excluded from cash equivalents.

(Continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES – Continued

Accounts and grants receivable consist of grants and other funds expected to be received shortly after year-end. No interest is earned on these receivables.

An allowance for uncollectible accounts is used to recognize receivables determined upon periodic review by management to be uncollectible.

Rental property and equipment are recorded at cost. Depreciation is recognized over estimated useful lives ranging from 3 to 27.5 years, using the straight-line method.

Properties held for resale are carried at the original purchase price or fair market value at date of donation, plus the cost of rehabilitation. Interest during the construction period is capitalized. A valuation allowance is used to reduce cost of the properties to net realizable value.

NNDC and Gateway are exempt from income taxation under Internal Revenue Code Section 501(c)(3). Caravelle is a single member limited liability corporation and is a disregarded entity for tax purposes. Its financial information is included with the returns of NNDC. Kenwood V is a separate taxable entity.

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 may differ from these estimates.

## 3. FINANCIAL INSTRUMENTS

NNDC maintains its cash in bank deposit accounts that exceed federally insured limits. As of June 30, 2009 and 2008, such excesses totaled approximately \$0 and \$86,000, respectively.

NNDC has not experienced any losses in its accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

## 4. TRANSACTIONS WITH PARTNERSHIPS AND SUBSIDIARIES

NNDC has sponsored, through its ownerships of the general partner, two partnerships that provide rental housing to qualified low-income individuals. Equity investors in the partnerships are entitled to income tax credits under Section 42 of the Internal Revenue Code.

The investment in subsidiaries, with a balance of \$0 and \$200 at June 30, 2009 and 2008, respectively, results from an equity investment made to the general partners, which has, in turn, been invested in the partnerships. Realization of this investment will not occur until partnership assets are sold at the end of the compliance period.

As of January 1, 2008, NNDC's investment in KP III has been reduced to zero because the title to the real property of KP III, L.P. was transferred to NNDC in lieu of foreclosure.

As of January 1, 2009, NNDC's investment in Kenwood V has been reduced to zero because Kenwood V was replaced as the general partner of Kenwood V, L.P.

5. NOTES RECEIVABLE

Notes receivable consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Kenwood V, L.P.		
- HOME	\$ -	\$ 424,003
- Developer fee	-	206,350
- Other	-	<u>29,206</u>
	-	659,559
Allowance for doubtful accounts	<u>-</u>	<u>(659,559)</u>
Total	<u>\$ -</u>	<u>\$ -</u>

Kenwood V received \$280,000 of HOME funds from NNDC for the transfer of property to the project. The transfer was evidenced by a promissory note that bears interest at the rate of 5.21% compounded annually. The note is secured by a second mortgage on the properties. The note is payable out of available cash flow and matures on December 1, 2019.

NNDC issued a note to Kenwood V in the amount of \$137,274 for payment of developer fees earned on the project. Interest is to be accrued at the AFR at the date of the note and the note is unsecured. Payment is to be made from available cash flow. The note matures on December 1, 2019.

NNDC issued a non-interest bearing note to Kenwood V in the amount of \$20,000 for operation and construction advances. The note has no specific maturity date.

The above notes were treated as paid in full as the result of the replacement of the general partner (see Note 4, above).

6. PROPERTY AND EQUIPMENT

As of June 30, 2009, property and equipment consists of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Office equipment	<u>\$ 85,946</u>	<u>\$ 80,984</u>	<u>\$ 4,962</u>
Rental property - single family	<u>\$ 335,550</u>	<u>\$ 132,294</u>	<u>\$ 203,256</u>

NNDC recognized an impairment loss of \$100,000 in the year ended June 30, 2008, on certain rental property. The loss is included in rental property expenses on the statements of activities.

(Continued)

6. PROPERTY AND EQUIPMENT – Continued

NNDC reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property.

7. PROPERTY UNDER DEVELOPMENT

Property under development at June 30, 2009, consists of the following:

Houses for sale	\$ 338,316
Vacant lots	350,012
Commercial properties	210,954
29th/30th Street corridor	<u>101,256</u>
	1,000,538
Less: valuation allowance	<u>(69,000)</u>
Total	<u>\$ 931,538</u>

During fiscal year 2009, NNDC received proceeds of \$13,200 for the sale of two properties. Costs totaling \$40,839 were incurred for the purchase and rehabilitation of these properties. A net loss of \$27,637 resulted from these actions. However, NNDC received grants totaling \$33,748 and refunds totaling \$1,857 on previously sold properties to offset this loss.

In anticipation of a loss not covered by grants, NNDC established a valuation allowance of \$69,000 for unsold housing and commercial properties.

The above-mentioned loss and the change in the valuation allowance have been combined and reported as home ownership program expenses in the statements of activities.

Property under development at June 30, 2008, consists of the following:

Vacant lots	\$ 373,053
Commercial properties	303,259
Brownfield properties	<u>11,479</u>
	687,791
Less: valuation allowance	<u>(59,000)</u>
Total	<u>\$ 628,791</u>

(Continued)

7. PROPERTY UNDER DEVELOPMENT – Continued

During fiscal year 2008, NNDC received proceeds of \$271,900 for the sale of eight properties. Costs totaling \$485,800 were incurred for the purchase and rehabilitation of these properties. A net loss of \$213,919 resulted from these actions. However, NNDC received grants totaling \$212,717 to offset this loss.

In anticipation of a loss not covered by grants, NNDC established a valuation allowance of \$59,000 for unsold housing properties.

The above-mentioned loss and the change in the valuation allowance have been combined and reported as home ownership program expenses in the statements of activities.

8. NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Mortgage - Caravelle Commons	\$ -	\$ 1,614,424
Clarian LOC	54,094	54,094
Children's Museum LOC	<u>408,183</u>	<u>254,712</u>
Total Notes Payable	<u>\$ 462,277</u>	<u>\$ 1,923,230</u>

Caravelle executed a note payable in the original amount of \$1,750,000 for the purchase and renovation of a HUD Section 8 housing project. The note is collateralized by a first mortgage on the property and is insured by HUD under Section 223(f) of the National Housing Act. The mortgage is subsidized by HUD interest reduction payments. The mortgage bears interest at the rate of 6.85% per annum and calls for monthly payments of \$11,467, before interest subsidy. The note is due April 2032. The mortgage may not be prepaid during the first five years. It is then subject to a prepayment penalty of 5% in year six, with the penalty declining by 1% each year thereafter (See Note 14, below).

NNDC maintains a revolving construction line of credit through Chase totaling \$500,000. Interest accrues at the bank's stated prime rate payable monthly and advances under the line of credit are unsecured. The line of credit matured on February 15, 2008, and was renewed March 10, 2008, with a line of credit totaling \$250,000. Interest accrues at the bank's prime rate plus 1.5%, payable monthly and advances under line of credit are unsecured. The maximum amount outstanding during 2009 and 2008 totaled \$140,000 and \$0, respectively. No amounts were outstanding at June 30, 2009 or 2008.

A revolving line of credit totaling \$721,500 was also obtained from Clarian for property acquisition and holding costs. The line of credit is non-interest-bearing and is collateralized by properties purchased. The line of credit has no specified expiration date. The maximum outstanding during 2009 and 2008 totaled \$54,094.

(Continued)

8. NOTES PAYABLE – Continued

In addition, NNDC has a \$2,000,000 credit facility available with The Children's Museum of Indianapolis, Inc. for the purchase, renovation, or new construction of residential or blighted commercially zoned property in the NNDC area. The line of credit is non-interest-bearing and matured on August 31, 2006. It has been informally extended. Advances under the line of credit are to be secured by mortgages on the related properties. The maximum amount outstanding during 2009 and 2008 totaled \$410,683 and \$254,712, respectively.

Scheduled maturities of notes payable are as follows:

Year ending June 30,	
2010	\$ 462,277
2011	-
2012	-
2013	-
2014	-
Thereafter	-
Total	<u>\$ 462,277</u>

9. ESCROWS AND RESERVES

The following is a summary of activity in the escrow and reserve accounts for the year ended June 30:

	Replacement Reserve	Tax and Insurance Escrow	Total
Balance - June 30, 2007	\$ 184,316	\$ 13,021	\$ 197,337
Additions	26,104	25,253	51,357
Withdrawals	<u>(47,387)</u>	<u>(24,713)</u>	<u>(72,100)</u>
Balance - June 30, 2008	163,033	13,561	176,594
Transfer	<u>(163,033)</u>	<u>(13,561)</u>	<u>(176,594)</u>
Balance - June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

For the year ended June 30, 2008, Caravelle is to fund the replacement reserve in the amount of \$1,545 per month for the period July 2007 to September 2007, and \$1,596 per month for the period October 2007 to June 2008, as required in the HUD regulatory agreement that is part of the mortgage note.

NNDC sold its member interest in Caravelle during the year ended June 30, 2009 (See Note 14, below).

10. CAPITALIZED COSTS

Capitalized costs relating to Caravelle's mortgage and related amortization is as follows at June 30, 2008:

	<u>Basis</u>	<u>Accumulated Amortization</u>
Permanent financing costs	<u>\$ 52,580</u>	<u>\$ 10,956</u>

Permanent financing costs are amortized over 30 years.

NNDC sold its member interest in Caravelle during the year ended June 30, 2009 (See Note 14, below).

11. OFFICE LEASE

NNDC entered into a lease agreement commencing December 1, 2006, for its new office space. The lease requires an initial monthly rent payment of \$1,500, plus an additional monthly payment of \$233 for real estate taxes. The monthly rental payment is to be increased annually by the change in the CPI. The lease ends November 30, 2011. Payments made for 2009 and 2008 totaled \$20,796 for each year.

Future minimum lease payments as of June 30, 2009, are as follows:

Year ending June 30,		
2010	\$	20,796
2011		20,796
2012		8,665
2013		-
Total	<u>\$</u>	<u>50,257</u>

12. EMPLOYEE BENEFIT PLANS

NNDC maintains a tax-deferred group annuity plan for its employees. The plan allows the employees to become participants by purchasing life insurance annuities through payroll deductions. These annuities will pay for all retirement and death benefits for covered employees who meet plan eligibility requirements until age 65. NNDC had no expense related to this plan for the years ended June 30, 2009 or 2008.

NNDC also maintains a Thrift Plan which covers all employees who meet the plan's eligibility requirements. The plan requires contributions equal to 5% of eligible participants' gross wages to be made annually by NNDC. NNDC paid \$2,978 and \$2,732 of expenses related to the plan for the years ended June 30, 2009 and 2008, respectively.

13. GRANTS RECEIVED

A significant portion of NNDC's activities were funded by the following grants during the year:

<i>Unrestricted Revenue --</i>	
INHP/INDI	\$ 113,000
Grants Recognized with Sale of Properties:	
HOME	24,000
The Children's Museum	9,715
Total Grants Recognized with Sale of Properties	<u>33,715</u>
Total Unrestricted Revenue	<u>\$ 146,715</u>
<i>Restricted Revenue --</i>	
City of Indianapolis:	
CDBG (2008 award - \$5,000)	5,000
CDBG (2008 award - \$163,800)	140,521
CDBG (2008 award - \$246,375)	180,849
CDBG (2009 award - \$240,000)	62,460
Total City of Indianapolis	<u>388,830</u>
Other Grants:	
INHP	6,615
LISC	105,584
Other	10,850
HUD - Caravelle	371,324
Total Other Grants	<u>494,373</u>
Total Restricted Revenue	<u>\$ 883,203</u>

In a prior year, NNDC received a grant from The Children's Museum of Indianapolis, Inc. for up to \$1 million, which was available through August 31, 2007, and has been continued by mutual agreement by both parties. The grant was to provide funds on an as-needed basis for funding shortages for work performed on various residential and commercial properties. In prior years, NNDC received \$156,531 for costs incurred on properties held for resale. During the year ended June 30, 2009, a home was sold with funds of \$9,715 released to revenue. The balance of such funds in deferred grant revenue at June 30, 2009 was \$146,816.

14. SALE OF MEMBER INTEREST

In March 2009, NNDC sold its member interest in Caravelle to Partners for Affordable Housing, Inc. (PAH) for \$125,000. Net income totaling \$74,577 for Caravelle for the period July 1, 2008 through the date of the sale is included in the statement of activities. NNDC also recognized a loss on sale of member interest totaling \$48,767.

**NEAR NORTH DEVELOPMENT  
CORPORATION AND SUBSIDIARIES**

**REPORTS PRESCRIBED BY  
OMB CIRCULAR A-133**

**JUNE 30, 2009**



**Gauthier & Kimmerling, LLC**  
accountants & advisors

233 S. McCrea Street • Suite 1000 • Indianapolis, IN 46225 • (317) 636-3265

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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*

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Board of Directors  
Near North Development Corporation  
Indianapolis, Indiana

We have audited the financial statements of Near North Development Corporation and its subsidiaries (NNDC) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 30, 2009. 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 NNDC's internal control over financial reporting 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 NNDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NNDC's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether NNDC'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.

This report is intended solely for the information and use of NNDC's Board of Directors, management, others within the entity, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Sauthier + Kimmeling, LLC*

October 30, 2009



**Gauthier & Kimmerling, LLC**  
accountants & advisors

233 S. McCrea Street • Suite 1000 • Indianapolis, IN 46225 • (317) 636-3265

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Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133

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Board of Directors  
Near North Development Corporation  
Indianapolis, Indiana

COMPLIANCE

We have audited the compliance of Near North Development Corporation and its subsidiaries (NNDC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. NNDC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of NNDC's management. Our responsibility is to express an opinion on NNDC's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 NNDC'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. Our audit does not provide a legal determination of NNDC's compliance with those requirements.

In our opinion NNDC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

### INTERNAL CONTROL OVER COMPLIANCE

The management of NNDC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NNDC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 NNDC's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of NNDC as of and for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of NNDC's Board of Directors, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Aauthier & Hammerling, LLC*

October 30, 2009

Near North Development Corporation  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Interest Reduction Payment - Rental and Cooperative Housing For Lower Income Families	14.103	N/A	\$ 23,823
Section 8 Housing Assistance Payments Program	14.195	N/A	347,501
HOME Investment Partnership Program - City of Indianapolis	14.239	POI 7300181 POI 7300182	64,000 <u>64,000</u>
Total HOME			<u>128,000</u>
Community Development Block Grants - City of Indianapolis	14.218	POI 8300208 POI 8300812 POI 8300207 POI 9300278	180,849 5,000 140,521 <u>62,460</u>
Total CDBG - City			<u>388,830</u>
Community Development Block Grants - Local Initiatives Support Corporation (HUD Section 4)	14.218 14.218	40407-0043 40407-0039	25,000 <u>33,792</u>
Total CDBG - LISC			<u>58,792</u>
Total CDBG			<u>447,622</u>
HUD Section 4 Funds Local Initiatives Support Corp.	14.252	40407-0044	<u>11,000</u>
Total U.S. Department of Housing and Urban Development			<u>957,946</u>
Total Expenditures of Federal Awards			<u>\$ 957,946</u>

The accompanying notes are an integral part of this schedule.

Near North Development Corporation  
Note to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2009

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The following describes the significant accounting policies used in the preparation of the schedule of expenditures of federal awards:

Basis of Accounting - NNDC maintains its financial records using the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when the related goods or services are received. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Near North Development Corporation  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2009

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<u>ITEM NUMBER</u>	<u>AUDIT FINDING</u>
08-01	<p>Caravelle failed both its initial physical inspection and subsequent re-inspection.</p> <p>Corrective Action: Necessary corrections were made and Caravelle passed its inspection.</p>

Near North Development Corporation  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009

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**Section I - Summary of Auditors' Results**

Financial Statements:

Type of auditor report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses? *None reported*

Noncompliance material to financial statements noted: *No*

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified: *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses? *No*

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? *No*

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
	<i>U.S. Department of Housing and Urban Development:</i>
14.218	Community Development Block Grants
14.195	Section 8 Housing Assistance Payments Program

Near North Development Corporation  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009

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**Section I - Summary of Auditors' Results – continued**

Dollar threshold used to distinguish between type A and type B programs: *\$300,000*

Auditee qualified as low-risk auditee? *No*

**Section II – Financial Statement Findings**

*No matters were reported.*

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

*No matters were reported.*