B35704

STATE OF INDIANA

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STATE BOARD OF ACCOUNTS
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February 4, 2010

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, 2005 to June 30, 2006. 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, 2006, 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.

STATE BOARD OF ACCOUNTS

NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES

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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
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, 2006 and 2005, 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 Near North Development Corporation and its subsidiaries as of June 30, 2006 and 2005, and the changes in their net assets and their 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 August 30, 2006, on our consideration of Near North Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 or our audit.

Gauthier & Kimmerling, LLC

August 30, 2006

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

	2006	2005
ASSETS		
Cash	$ 695,131	$ 615,571
Accounts receivable	6,677	37,328
Grants receivable	11,567	91,702
Due from partnerships (Note 4)	20,438	30,238
Notes receivable, net of an allowance of $572,130 and $130,000 (Note 5)	176,391	537,758
Prepaid expenses	11,003	14,465
Office equipment, net (Note 6)	11,364	11,161
Rental property, net (Note 6)	1,702,060	1,783,240
Property under development, net (Note 7)	854,311	876,042
Investments in partnerships (Note 4)	48,200	48,200
Escrows (Note 9)	13,525	11,659
Reserves (Note 9)	169,275	162,788
Capitalized costs (Note 10)	45,130	46,883
Total Assets	$ 3,765,072	$ 4,267,035
LIABILITIES		
Accounts payable	$ 37,276	$ 49,230
Notes payable (Note 8)	2,195,288	2,076,662
Deferred grant revenue	314,626	339,810
Other liabilities	14,339	12,811
Total Liabilities	2,561,529	2,478,513
NET ASSETS		
Unrestricted	1,171,721	1,769,400
Temporarily restricted (Note 13)	31,822	19,122
Total Net Assets	1,203,543	1,788,522
Total Liabilities and Net Assets	$ 3,765,072	$ 4,267,035

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,

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES						
Grant revenue	$ 111,375	$ 992,990	$ 1,104,365	$ 105,208	$ 1,236,255	$ 1,341,463
Contributions	89,725	-	89,725	73,130	-	73,130
Rental income	81,396	-	81,396	91,766	-	91,766
Forgiveness of debt	18,333	-	18,333	3,667	-	3,667
Interest	46,966	-	46,966	40,659	-	40,659
Other	28,324	-	28,324	37,330	-	37,330
Total revenue	376,119	992,990	1,369,109	351,760	1,236,255	1,588,015
Net assets released from restrictions	980,290	(980,290)	-	1,235,836	(1,235,836)	-
Total Revenue and Support	1,356,409	12,700	1,369,109	1,587,596	419	1,588,015
EXPENSES						
Home ownership program (Note 7)	209,721	-	209,721	391,958	-	391,958
Homeowner assistance	269,729	-	269,729	279,202	-	279,202
Rental property expenses	525,248	-	525,248	572,766	-	572,766
Development expenses	59,246	-	59,246	98,843	-	98,843
Administrative expenses	336,857	-	336,857	346,889	-	346,889
Bad debt expense	465,565	-	465,565	197,897	-	197,897
Depreciation and amortization	87,722	-	87,722	87,807	-	87,807
Total Expenses	1,954,088	-	1,954,088	1,975,362	-	1,975,362
Change in net assets	(597,679)	12,700	(584,979)	(387,766)	419	(387,347)
Net assets - beginning of year	1,769,400	19,122	1,788,522	2,157,166	18,703	2,175,869
Net assets - end of year	$ 1,171,721	$ 31,822	$ 1,203,543	$ 1,769,400	$ 19,122	$ 1,788,522

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,

	2006	2005
CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Changes in net assets	$ (584,979)	$ (387,347)
Adjustment to reconcile net assets to net cash provided by (used in) operations:		
Depreciation and amortization	87,722	87,807
Loss on sale of property	139,721	286,958
Forgiveness of debt	(18,333)	(3,667)
Bad debt expense	465,565	197,897
Increase (decrease) in valuation allowance	70,000	105,000
Recoverable grant forgiveness	-	(55,000)
(Increase) decrease in accounts and grants receivable	107,351	(100,957)
(Increase) decrease in prepaid expenses	3,462	7,440
(Increase) decrease in escrows	(1,866)	55,464
Increase (decrease) in accounts payable	(11,954)	31,552
Increase (decrease) in deferred grant revenue	(25,184)	(163,218)
Increase (decrease) in other liabilities	1,528	854
Cash Flow Provided by (Used In) Operating Activities	233,033	62,783
CASH FLOW PROVIDED BY INVESTING ACTIVITIES		
Increase in property under development	(464,990)	(398,997)
(Increase) decrease in due from partnerships	(10,200)	24,311
Purchase of furniture and equipment	(4,014)	-
Additions to rental property	(978)	(244)
(Increase) decrease in notes receivable	(80,763)	257,152
Deposits to reserves	(54,672)	(67,451)
Withdrawals from reserves	48,185	150
Proceeds from sale of properties	277,000	862,000
Cash Flow Provided by (Used In) Investing Activities	(290,432)	676,921
CASH FLOW PROVIDED BY FINANCING ACTIVITIES		
Proceeds from borrowings	423,194	74,950
Debt repayments	(286,235)	(555,380)
Cash Flow Provided by (Used In) Financing Activities	136,959	(480,430)
Net increase (decrease) in cash	79,560	259,274
Cash - beginning of year	615,571	356,297
Cash - end of year	$ 695,131	$ 615,571
Interest paid during the year	$ 116,060	$ 118,459

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, 2006 AND 2005

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.

Through subsidiary corporations, NNDC serves as a general partner in two partnerships that provide rental housing to qualified low-income individuals.

NNDC is also the sole member of a limited liability corporation that owns and operates a project-based Section 8 housing development.

NNDC is also the sole member of a limited liability corporation that was established to facilitate the use of New Market Tax Credits.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the results of operations and account balances of NNDC and its wholly owned subsidiaries, Indianapolis Science and Technology Park, Inc. (Tech Park), Fall Creek Retail Center, Inc. (FC Retail), KP III, Inc. (KP III), Kenwood Doubles, Inc. (Doubles), Kenwood V, Inc. (Kenwood V), Caravelle Commons, LLC (Caravelle), Gateway Project, Inc. (Gateway), and Fall Creek Development Capital, LLC (FC Capital). All significant inter-company 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.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES - Continued

Permanent financing costs are capitalized and amortized over the term of the 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.

Accounts and grants receivable consists 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 1/2 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. In accordance with Statement of Financial Accounting Standards No. 144, a valuation allowance is used to reduce cost to net realizable value.

NNDC and Gateway are exempt from income taxation under Internal Revenue Code Section 501(c)(3). Caravelle and FC Capital are single member limited liability companies and are disregarded entities for tax purposes. Their financial information is included with the returns of NNDC. Tech Park, FC Retail, KP III, Doubles, and Kenwood V are separate taxable entities.

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, 2006 and 2005, such excesses totaled approximately $374,000 and $357,000, 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.

(Continued)

4. TRANSACTIONS WITH PARTNERSHIPS AND SUBSIDIARIES - Continued

The investment in subsidiaries, with a balance of $48,200 at June 30, 2006 and 2005, 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.

The amount reported as due from partnerships, totaling $40,438 less an allowance for doubtful accounts of $20,000 at June 30, 2006 and $30,238 at June 30, 2005, represents operation and construction advances.

5. NOTES RECEIVABLE

Notes receivable consist of the following at June 30:

	2006	2005
KP III, L.P.		
- Developer Fee	$ 127,522	$ 123,230
- Mortgage	48,868	-
Kenwood V, L.P.		
- HOME	383,050	364,081
- Developer fee	189,081	180,447
	748,521	667,758
Allowance for doubtful accounts	(572,130)	(130,000)
Total	$ 176,391	$ 537,758

NNDC has a promissory note receivable from KP III, L.P. in the amount of $79,943 for deferred developer fees. The note bears interest at the rate of the Applicable Federal Rate (AFR) less 1% at the date of the note and is payable over a period of no more than 15 years. In the event cash flow from the project is not sufficient to allow repayment within 15 years, the balance will become due on December 7, 2007. No payments were received during the year ended June 30, 2006. The balance at June 30, 2006, totaled $127,522, including accrued interest.

NNDC has issued a promissory note to KP III, L.P., in the original amount of $51,024 which is collateralized by a mortgage on certain real property. The note bears interest at 6% per annum and matures December 9, 2010. The note calls for 59 monthly principal and interest payments of $566 and a final balloon payment of $29,301.

Kenwood V, L.P. 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. No payments were received during the year. The balance at June 30, 2006, totaled $383,050, including accrued interest.

(Continued)

5. NOTES RECEIVABLE - Continued

NNDC issued a note to Kenwood V, L.P. in the amount of $137,274 for payment of developer fees earned on the project. Interest is to be accrued at the AFR and the note is unsecured. Payment is to be made from available cash flow. The note matures on December 1, 2019. No payments were received during the year ended June 30, 2006. The balance outstanding at year-end totaled $189,081, including accrued interest.

During the year ended June 30, 2005, NNDC wrote-off notes receivable from Kenwood Doubles, L.P. totaling $394,627. See Note 15, below.

6. PROPERTY AND EQUIPMENT

As of June 30, 2006, property and equipment consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
Office equipment	$ 80,773	$ 69,409	$ 11,364
Rental property - single family	$ 178,283	$ 91,704	$ 86,579
- Caravelle	1,898,460	282,979	1,615,481
Total	$ 2,076,743	$ 374,683	$ 1,702,060

7. PROPERTY UNDER DEVELOPMENT

Property under development at June 30, 2006, consists of the following:

Houses for sale	$ 461,253
Vacant lots	93,995
Commercial properties	371,101
Brownfield properties	10,462
	936,811
Less: valuation allowance	(82,500)
Total	$ 854,311

During fiscal 2006, NNDC received proceeds of $277,000 for the sale of eight properties. Costs totaling $416,721 were incurred for the purchase and rehabilitation of these properties. A net loss of $139,721resulted from these actions. However, NNDC received grants totaling $120,360 to offset this loss.

In anticipation of a loss not covered by grants, NNDC established a valuation allowance of $82,500 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.

(Continued)

7. PROPERTY UNDER DEVELOPMENT - Continued

Property under development at June 30, 2005, consists of the following:

Houses for sale	$ 498,664
Vacant lots	74,799
Commercial properties	310,013
Brownfield properties	102,566
	986,042
Less: valuation allowance	(110,000)
Total	$ 876,042

During fiscal 2005, NNDC received proceeds of $862,000 for the sale of twelve properties. Costs totaling $1,148,958 were incurred for the purchase and rehabilitation of these properties. A net loss of $286,958 resulted from these actions. However, NNDC received grants totaling $223,160 to offset this loss.

In anticipation of a loss not covered by grants, NNDC established a valuation allowance of $110,000 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:

	2006	2005
Mortgage - Caravelle Commons	$ 1,664,785	$ 1,687,500
Mortgage - 118/120 W. 23rd	11,254	16,705
First Indiana Bank - FHLB	-	18,333
Chase LOC	116,690	186,755
Key Bank LOC	39,456	67,118
Clarian LOC	54,095	80,251
LISC - Fall Creek Retail Center	-	20,000
Children's Museum LOC	309,008	-
Total Notes Payable	$ 2,195,288	$ 2,076,662

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, including 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.

(Continued)

8. NOTES PAYABLE - Continued

NNDC obtained a mortgage from a bank in the original amount of $55,000 for the purchase of rental property. The mortgage bears interest at the rate of 7.37% and calls for monthly payments of $509 including principal and interest. The mortgage is secured by certain real estate and matures on June 29, 2008.

NNDC has a $55,000 note payable to First Indiana Bank as the result of Affordable Housing Program funds being passed through to a partnership. The note is non-interest-bearing and is due June 7, 2010. The note will be forgiven ratably over the 15-year compliance period if certain conditions are met. As of June 30, 2006, the remaining balance of the note totaling $18,333 has been forgiven.

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 matures on February 15, 2007. The maximum amount outstanding during 2006 and 2005 totaled $186,755 and $410,156, respectively.

NNDC also maintains a revolving line of credit through Key Bank totaling $300,000. Interest accrues at the bank's stated prime rate payable on a monthly basis and advances under the line of credit are unsecured. The line of credit matured April 23, 2006 and has been informally extended. The maximum amount outstanding during 2006 and 2005 totaled $67,118 and $276,261, respectively.

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 2006 and 2005 totaled $80,251 and $102,251, respectively.

LISC provided recoverable grant funds totaling $75,000 to cover predevelopment expenses for FC Retail. During the year ended June 30, 2005, the recoverable grant was amended and a total of $55,000 was not required to be repaid. Such amount is included in grant revenue for the year ended June 30, 2005. The remaining $20,000 was to mature January 1, 2006. It was repaid in August 2005.

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 matures on August 31, 2006 and 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 2006 and 2005 totaled $309,008 and $0, respectively.

(Continued)

8. NOTES PAYABLE - Continued

Scheduled maturities of notes payable are as follows:

Year ending June 30,	
2007	$ 549,088
2008	31,776
2009	27,881
2010	29,852
2011	31,962
Thereafter	1,524,529
Total	$ 2,195,088

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	Reserve for Repairs	Total
Balance at June 30, 2004	$ 95,487	$ 17,649	$ 49,474	$ 162,610
Additions	67,451	15,145	244	82,840
Withdrawals	(150)	(22,616)	(48,237)	(71,003)
Balance at June 30, 2005	162,788	10,178	1,481	174,447
Additions	54,672	24,306	50	79,028
Withdrawals	(48,185)	(22,490)	-	(70,675)
Balance at June 30, 2006	$ 169,275	$ 11,994	$ 1,531	$ 182,800

Caravelle is to fund the replacement reserve in the amount of $1,465 per month for the period July 2005 to September 2005 and $1,499 per month for the period October 2005 to June 2006 as required in the HUD regulatory agreement that is part of the mortgage note.

10. CAPITALIZED COSTS

The capitalized costs and related amortization is as follows at June 30, 2006:

	Basis	Accumulated Amortization
Permanent financing costs	$ 52,580	$ 7,450

Permanent financing costs are amortized over 30 years.

11. OFFICE LEASE

NNDC leases its office space. The lease requires monthly payments of $1,785, which may be increased for NNDC's pro rata share of increased operating expenses. The lease commenced December 31, 2001, and ends November 30, 2006. Payments totaling $19,632 were made during the year.

Future minimum lease payments as of June 30, 2006, are as follows:

For the year ended June 30, 2007	$ 8,925

12. GRANTS RECEIVED

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

Unrestricted Revenue --	
INHP/INDI	$ 111,375
Restricted Revenue --	
City of Indianapolis:	
HOME (2006 award - $15,000)	$ 7,112
CDBG (2006 award - $135,000)	72,577
CDBG (2005 award - $150,000)	91,033
CDBG (2005 award - $10,000)	10,000
CDBG (2005 award - $4,275)	4,271
CDBG (2003-05 award - $413,250)	117,913
Total City of Indianapolis	302,906
Grants Recognized with Sale of Properties:	
HOME	105,360
The Children's Museum	15,000
Total Grants Recognized with Sale of Properties	120,360
Other Grants:	
INHP	5,465
LISC	82,077
Chase	10,000
The Indianapolis Foundation	4,000
HUD - Caravelle	468,182
Total Other Grants	569,724
Total Restricted Revenue	$ 992,990

In addition, NNDC received $64,000 in HOME funds for costs incurred on properties held for resale. Such amounts are included in deferred grant revenue at year-end.

(Continued)

12. GRANTS RECEIVED - Continued

In a prior year, NNDC received a grant from The Children's Museum of Indianapolis, Inc. for up to $1 million, which is available through August 31, 2006. The grant is to provide funds on an as-needed basis for funding shortages for work performed on various residential and commercial properties. In a prior year, NNDC received $158,739 for costs incurred on properties held for resale. During the year ended June 30, 2006, additional funds of $35,301 were drawn and a home was sold with funds of $15,000 released to revenue. The balance of such funds in deferred grant revenue at June 30, 2006 was $179,040.

13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	2006	2005
Chase	$ 10,000	$ -
The Indianapolis Foundation	4,000	-
INHP - environmental remediation	17,403	17,403
LISC - environmental study	-	1,300
LISC - facade	419	419
	$ 31,822	$ 19,122

14. 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, 2006 and 2005.

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 $7,735 and $1,200 of expenses related to the plan for the years ended June 30, 2006 and 2005, respectively.

15. KENWOOD DOUBLES, L.P.

During the year ended June 30, 2005, the properties of Kenwood Doubles, L.P., of which Doubles was the general partner, were placed in foreclosure and sold at sheriff's sale. As the result of these actions, notes and accounts receivable from Kenwood Doubles, L.P. totaling $444,993, were written off by NNDC. To account for this write-off, the previously recorded allowance for doubtful accounts was reduced by $394,627 and additional bad debt expense totaling $50,366 was recognized for the year ended June 30, 2005.

16. CONTINGENCY

NNDC, in partnership with the Indiana Department of Environmental Management (IDEM), has agreed to oversee the clean up of two properties owned by Gateway that were found to have soil contamination. NNDC believes that all costs required to be paid in connection with the clean up and environmental remediation have been, and will be, funded through grants. Further, NNDC expects to receive assurances from IDEM that it will not hold NNDC liable for any additional corrective action related to the environmental contaminations that have been identified. As a result of these factors, no liability has been recorded.

NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES

REPORTS PRESCRIBED BY OMB CIRCULAR A-133

JUNE 30, 2006

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*

Board of Directors
Near North Development Corporation
Indianapolis, Indiana

We have audited the financial statements of Near North Development Corporation (NNDC) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 30, 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 NNDC'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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, 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.

Gauthier & Kemmerling, LLC

August 30, 2006

Gauthier & Kimmerling, LLC
Accountants & Advisors

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

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

Board of Directors
Near North Development Corporation
Indianapolis, Indiana

COMPLIANCE

We have audited the compliance of Near North Development Corporation (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, 2006. 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, 2006.

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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of Near North Development Corporation as of and for the year ended June 30, 2006, and have issued our report thereon dated August 30, 2006. 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, 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.

Gauthier & Kimmerling, LLC

August 30, 2006

Near North Development Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

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	$ 31,764
Section 8 Housing Assistance Payments Program	14.195	N/A	436,418
Mortgage Insurance for the Purchase or Refinancing of Existing Multifamily Housing Projects	14.155	N/A	1,687,500
HOME Investment Partnership Program - City of Indianapolis	14.239	CIT 6300342	7,112
		CIT 5300357	64,000
Community Development Block Grants - City of Indianapolis	14.218	CIT 5300133	91,033
		CIT 6300141	72,577
		CIT 5300450	10,000
		CIT 5300451	4,271
Community Development Block Grants - Local Initiatives Support Corporation (HUD Section 4)	14.218	40407-0026	32,852
Lead Hazard Reduction Demonstration Grant Program - City of Indianapolis	14.905	CIT 4300315	117,913
Total U.S. Department of Housing and Urban Development			2,555,440
Total Expenditures of Federal Awards			$ 2,555,440

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, 2006

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, 2006

ITEM NUMBER	AUDIT FINDING
	None reported

Near North Development Corporation
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditor report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Reportable condition(s) 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*
- Reportable condition(s) identified that are not considered to be material weaknesses? *None reported*

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:

CFDA Number(s)	Name of Federal Program
	U.S. Department of Housing and Urban Development:
14.155	Mortgage Insurance for the Purchase or Refinancing of Existing Multifamily Housing Projects
14.195	Section 8 Housing Assistance Payments Program
14.218	Community Block Development Grant

Near North Development Corporation
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

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.

Gauthier & Kimmerling, LLC
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REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO FAIR HOUSING AND NON-DISCRIMINATION

Board of Directors
Caravelle Commons, LLC
Indianapolis, Indiana

We have audited the financial statements of Caravelle Commons, LLC (Caravelle) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 30, 2006.

We have applied procedures to test Caravelle's compliance with the Fair Housing and Non-Discrimination requirements applicable to its HUD-assisted programs, for the year ended June 30, 2006.

Our procedures were limited to the applicable compliance requirement described in the Consolidated Audit Guide for Audits of HUD Programs, issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General. Our procedures were substantially less in scope than an audit, the objective of which would be the expression of an opinion on the Project's compliance with the Fair Housing and Non-Discrimination requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under the Guide.

This report is intended solely for the information of management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Gauthier & Kimmerling, LLC

August 30, 2006