B35705

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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, 2006 to June 30, 2007. 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, 2007, 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 Schedule of Findings and Questioned Costs contain two current audit findings and $4,247 in questioned costs.

STATE BOARD OF ACCOUNTS

NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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, 2007 and 2006, 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, 2007 and 2006, 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 October 23, 2007, 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

October 23, 2007

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

	2007	2006
ASSETS		
Cash	$ 576,554	$ 695,131
Accounts receivable	20,880	6,677
Grants receivable	86,324	11,567
Due from partnerships (Note 4)	22,282	20,438
Notes receivable, net of an allowance of $620,722 and $592,139 (Note 5)	177,047	176,391
Prepaid expenses	11,003	11,003
Office equipment, net (Note 6)	11,001	11,364
Rental property, net (Note 6)	1,621,070	1,702,060
Property under development, net (Note 7)	884,490	854,311
Investments in subsidiaries (Note 4)	48,200	48,200
Escrows (Note 9)	13,021	13,525
Reserves (Note 9)	184,316	169,275
Capitalized costs (Note 10)	43,377	45,130
Total Assets	$ 3,699,565	$ 3,765,072
LIABILITIES		
Accounts payable	$ 64,845	$ 37,276
Notes payable (Note 8)	2,159,852	2,195,288
Deferred grant revenue	359,038	314,626
Other liabilities	15,033	14,339
Total Liabilities	2,598,768	2,561,529
NET ASSETS		
Unrestricted	1,096,320	1,171,721
Temporarily restricted (Note 13)	4,477	31,822
Total Net Assets	1,100,797	1,203,543
Total Liabilities and Net Assets	$ 3,699,565	$ 3,765,072

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,

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES						
Grant revenue	$ 169,542	$ 835,926	$ 1,005,468	$ 111,375	$ 992,990	$ 1,104,365
Contributions	56,930	-	56,930	89,725	-	89,725
Rental income	87,658	-	87,658	81,396	-	81,396
Forgiveness of debt	-	-	-	18,333	-	18,333
Interest	54,043	-	54,043	46,966	-	46,966
Other	59,038	-	59,038	28,324	-	28,324
Total revenue	427,211	835,926	1,263,137	376,119	992,990	1,369,109
Net assets released from restrictions	863,271	(863,271)	-	980,290	(980,290)	-
Total Revenue and Support	1,290,482	(27,345)	1,263,137	1,356,409	12,700	1,369,109
EXPENSES						
Home ownership program (Note 7)	51,762	-	51,762	209,721	-	209,721
Homeowner assistance	197,844	-	197,844	269,729	-	269,729
Rental property expenses	565,451	-	565,451	525,248	-	525,248
Development expenses	132,159	-	132,159	59,246	-	59,246
Administrative expenses	418,667	-	418,667	890,144	-	890,144
Total Expenses	1,365,883	-	1,365,883	1,954,088	-	1,954,088
Change in net assets	(75,401)	(27,345)	(102,746)	(597,679)	12,700	(584,979)
Net assets - beginning of year	1,171,721	31,822	1,203,543	1,769,400	19,122	1,788,522
Net assets - end of year	$ 1,096,320	$ 4,477	$ 1,100,797	$ 1,171,721	$ 31,822	$ 1,203,543

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,

	2007	2006
CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Changes in net assets	$ (102,746)	$ (584,979)
Adjustment to reconcile net assets to net cash provided by (used in) operations:		
Depreciation and amortization	89,243	87,722
Loss on sale of property	39,262	139,721
Forgiveness of debt	-	(18,333)
Bad debt expense	46,517	465,565
Increase (decrease) in valuation allowance	12,500	70,000
(Increase) decrease in accounts and grants receivable	(135,477)	107,351
(Increase) decrease in prepaid expenses	-	3,462
(Increase) decrease in escrows	504	(1,866)
Increase (decrease) in accounts payable	27,569	(11,954)
Increase (decrease) in deferred grant revenue	44,412	(25,184)
Increase (decrease) in other liabilities	694	1,528
Cash Flow Provided by (Used In) Operating Activities	22,478	233,033
CASH FLOW PROVIDED BY INVESTING ACTIVITIES		
Increase in property under development	(320,541)	(464,990)
(Increase) decrease in due from partnerships	(1,844)	(10,200)
Purchase of furniture and equipment	(4,293)	(4,014)
Additions to rental property	(1,844)	(978)
(Increase) decrease in notes receivable	(656)	(80,763)
Deposits to reserves	(25,607)	(54,672)
Withdrawals from reserves	10,566	48,185
Proceeds from sale of properties	238,600	277,000
Cash Flow Provided by (Used In) Investing Activities	(105,619)	(290,432)
CASH FLOW PROVIDED BY FINANCING ACTIVITIES		
Proceeds from borrowings	408,700	423,194
Debt repayments	(444,136)	(286,235)
Cash Flow Provided by (Used In) Financing Activities	(35,436)	136,959
Net increase (decrease) in cash	(118,577)	79,560
Cash - beginning of year	695,131	615,571
Cash - end of year	$ 576,554	$ 695,131
Interest paid during the year	$ 113,945	$ 116,060

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

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.

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). Indianapolis Science and Technology Park, Inc., Fall Creek Retail Center, Inc. and Fall Creek Development Capital, LLC were dissolved in February 2007. 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.

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.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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. KP III 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.

Certain prior year amounts have been reclassified to conform to current year presentation. There is no effect on prior year change in net assets as the result of the reclassification.

3. FINANCIAL INSTRUMENTS

NNDC maintains its cash in bank deposit accounts that exceed federally insured limits. As of June 30, 2007 and 2006, such excesses totaled approximately $257,000 and $374,000, 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 $48,200 at June 30, 2007 and 2006, 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 $22,282 and $20,438 at June 30, 2007 and 2006, respectively, represents operation and construction advances.

5. NOTES RECEIVABLE

Notes receivable consist of the following at June 30:

	2007	2006
KP III, L.P.		
- Developer Fee	$ 131,816	$ 127,522
- Mortgage	45,231	48,868
Kenwood V, L.P.		
- HOME	403,006	383,050
- Developer fee	197,716	189,081
- Other	20,000	20,000
	797,769	768,521
Allowance for doubtful accounts	(620,722)	(592,130)
Total	$ 177,047	$ 176,391

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, 2007. The balance at June 30, 2007, totaled $131,816, 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, 2007, totaled $403,006, including accrued interest.

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 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. No payments were received during the year ended June 30, 2007. The balance outstanding at year-end totaled $197,716, including accrued interest.

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.

6. PROPERTY AND EQUIPMENT

As of June 30, 2007, property and equipment consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
Office equipment	$ 85,066	$ 74,065	$ 11,001
Rental property - single family	$ 180,126	$ 100,550	$ 79,576
- Caravelle	1,898,460	356,966	1,541,494
Total	$ 2,078,586	$ 457,516	$ 1,621,070

7. PROPERTY UNDER DEVELOPMENT

Property under development at June 30, 2007, consists of the following:

Houses for sale	$ 368,420
Vacant lots	242,485
Commercial properties	303,077
Brownfield properties	11,008
	924,990
Less: valuation allowance	(40,500)
Total	$ 884,490

During fiscal 2007, NNDC received proceeds of $238,600 for the sale of three properties. Costs totaling $277,862 were incurred for the purchase and rehabilitation of these properties. A net loss of $39,262 resulted from these actions. However, NNDC received grants totaling $57,000 to offset this loss.

In anticipation of a loss not covered by grants, NNDC established a valuation allowance of $40,500 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.

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

(Continued)

7. PROPERTY UNDER DEVELOPMENT - Continued

During fiscal 2006, NNDC received proceeds of $277,000 for the sale of twelve properties. Costs totaling $416,721 were incurred for the purchase and rehabilitation of these properties. A net loss of $139,721 resulted 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 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:

	2007	2006
Mortgage - Caravelle Commons	$ 1,640,465	$ 1,664,785
Mortgage - 118/120 W. 23rd	5,805	11,254
Chase LOC	-	116,690
Key Bank LOC	68,513	39,456
Clarian LOC	54,095	54,095
Children's Museum LOC	390,974	309,008
Total Notes Payable	$ 2,159,852	$ 2,195,288

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.

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 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, 2008. The maximum amount outstanding during 2007 and 2006 totaled $116,690 and $186,755, respectively.

(Continued)

8. NOTES PAYABLE - Continued

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, 2007 and has been informally extended. The maximum amount outstanding during 2007 and 2006 totaled $127,677 and $67,118, 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 2007 and 2006 totaled $54,094 and $80,251, respectively.

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 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 2007 and 2006 totaled $390,974 and $309,008, respectively.

NNDC had 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 was non-interest-bearing and was due June 7, 2010. The note was to be forgiven ratably over the 15-year compliance period if certain conditions were met. As of June 30, 2006, the remaining balance of the note totaling $18,333 had been forgiven.

LISC provided recoverable grant funds totaling $75,000 to cover predevelopment expenses for FC Retail. In a prior year, the recoverable grant was amended and a total of $55,000 was not required to be repaid. The remaining $20,000 was to mature January 1, 2006 and it was repaid in August 2005.

Scheduled maturities of notes payable are as follows:

Year ending June 30,

2008	$ 545,427
2009	27,881
2010	29,852
2011	31,962
2012	34,222
Thereafter	1,490,508
Total	$ 2,159,852

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, 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
Additions	25,607	23,378	44	49,029
Withdrawals	(10,566)	(22,351)	(1,575)	(34,492)
Balance at June 30, 2007	$ 184,316	$ 13,021	$ -	$ 197,337

For the year ended June 30, 2007, Caravelle is to fund the replacement reserve in the amount of $1,499 per month for the period July 2006 to September 2006 and $1,545 per month for the period October 2006 to June 2007, as required in the HUD regulatory agreement that is part of the mortgage note.

For the year ended June 30, 2006, 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, 2007:

	Basis	Accumulated Amortization
Permanent financing costs	$ 52,580	$ 9,203

Permanent financing costs are amortized over 30 years.

11. OFFICE LEASE

NNDC leases its office space and during fiscal 2007, NNDC relocated its offices. The lease for its former office space required monthly payments of $1,785, which could be increased for NNDC's pro rata share of increased operating expenses. The lease commenced December 31, 2001, and ended November 30, 2006. Payments totaling $8,925 were made during the year.

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 and 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 totaling $13,516 were made during the year.

(Continued)

11. OFFICE LEASE – Continued

Future minimum lease payments as of June 30, 2007 are as follows:

Year ending June 30,		
2008	$	20,796
2009		20,796
2010		20,796
2011		19,063
Total	$	81,451

12. GRANTS RECEIVED

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

Unrestricted Revenue --		
INHP/INDI	$	112,542
Grants Recognized with Sale of Properties:		
HOME		42,000
The Children's Museum		15,000
Total Grants Recognized with Sale of Properties		57,000
Total Unrestricted Revenue	$	169,542
Restricted Revenue --		
City of Indianapolis:		
HOME (2007 award - $15,000)	$	11,621
HOME (2006 award - $15,000)		7,888
HOME (2006 award - $64,000)		2,681
HOME (2006 award - $128,000)		4,719
CDBG (2007 award - $177,390)		77,793
CDBG (2006 award - $225,000)		157,134
CDBG (2006 award - $4,720)		4,720
Total City of Indianapolis		266,556
Other Grants:		
INHP		5,200
LISC		83,731
Other		2,103
HUD - Caravelle		478,336
Total Other Grants		569,370
Total Restricted Revenue	$	835,926

In addition, NNDC received $80,787 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, 2007. The grant is 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 $179,040 for costs incurred on properties held for resale. During the year ended June 30, 2007, additional funds of $22,500 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, 2007 was $186,540.

13. TEMPORARILY RESTRICTED NET ASSETS

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

	2007	2006
Chase	$ -	$ 10,000
The Indianapolis Foundation	-	4,000
INHP - environmental remediation	58	17,403
LISC - facade	4,419	419
	$ 4,477	$ 31,822

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, 2007 and 2006.

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 $5,386 and $7,735 of expenses related to the plan for the years ended June 30, 2007 and 2006, respectively.

15. 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.

(Continued)

15. CONTINGENCY - Continued

In January 2007, Caravelle was named as a defendant in a wrongful death lawsuit by the estate of an individual, who was not a tenant but who died in one of the parking lots. In April 2007, the representative of the estate was replaced by the court due to their unwillingness to continue with the complaint. Caravelle is being represented by an attorney appointed by Caravelle's insurance carrier.

Management intends to vigorously defend this claim. Management, the insurance company, and its legal counsel cannot predict the outcome of this claim. Any losses that may result from this complaint will be covered by insurance, less a $5,000 deductible. Accordingly, no contingent liability has been recorded in these financial statements.

16. SUBSEQUENT EVENT

In August 2007 a letter of intent was signed for the replacement of NNDC as the single member of Caravelle. The purchase price for NNDC's membership interest will be $100, plus the exchange of certain real estate located near Caravelle. Management hopes to have the transaction completed by the end of the 2007 calendar year.

gk Gauthier & Kimmerling, LLC
Accountants & Advisors
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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*

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, 2007, and have issued our report thereon dated October 23, 2007. 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 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 generally accepted accounting principles 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting 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 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.

Boucher & Kimmerling, LLC

October 23, 2007

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 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, 2007. 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.

As described in items 07-01 and 07-02 in the accompanying schedule of findings and questioned costs, NNDC did not comply with requirements regarding eligibility and documentation that are applicable to the Section 8 Housing Assistance Payments Program. Compliance with such requirements is necessary, in our opinion, for NNDC to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2007.

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 Near North Development Corporation and its subsidiaries as of and for the year ended June 30, 2007, and have issued our report thereon dated October 23, 2007. 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.

Sauther + Kemmerling, LLC

October 23, 2007

Near North Development Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

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	$ 31,761
Section 8 Housing Assistance Payments Program	14.195	N/A	446,575
Mortgage Insurance for the Purchase or Refinancing of Existing Multifamily Housing Projects	14.155	N/A	1,640,465
HOME Investment Partnership Program - City of Indianapolis	14.239	CIT 6300168	57,868
		CIT 6300342	7,888
		CIT 5300357	25,600
		CIT 7300180	11,621
		CIT 6300169	4,719
Community Development Block Grants - City of Indianapolis	14.218	CIT 6300141	157,134
		CIT 7300202	77,793
		CIT 6300812	4,720
Community Development Block Grants - Local Initiatives Support Corporation (HUD Section 4)	14.218	40407-0026	11,148
		40407-0035	14,610
Total U.S. Department of Housing and Urban Development			2,491,902
Total Expenditures of Federal Awards			$ 2,491,902

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, 2007

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, 2007

ITEM NUMBER	AUDIT FINDING
	None reported

Near North Development Corporation
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

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? *Yes*

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? *Yes*

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

Near North Development Corporation
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

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? *Yes*

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

Department of Housing and Urban Development

CFDA 14.195 Section 8 Housing Assistance Payments Program

FINDING NO. 07-01

Condition:	Tenant income was not verified at time of tenant move-in for 1 of the 13 files selected for testing. Verification of income was obtained at a later interim recertification.
Criteria:	Income verification is required at time of move-in in order to properly determine the amount of rental assistance to be requested from HUD.
Effect:	The adequacy of the rental assistance received from HUD for the above file cannot be verified and the amount of assistance requested from HUD may not be correct.
Cause:	Control procedures over the intake process did not operate effectively.
Questioned costs:	$3,702
Recommendation:	Control procedures over the intake process should be reviewed by management to determine if they are adequate.

Near North Development Corporation
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section III – Federal Award Findings and Questioned Costs - Continued

CFDA 14.195 Section 8 Housing Assistance Payments Program

FINDING NO. 07-02

Condition:	Rental assistance was requested for an amount not in agreement with HUD-50059 for 1 of the 13 files selected for testing.
Criteria:	Rental assistance requests are to be based on HUD – 50059 forms.
Effect:	Tenant was charged $109 more than required on HUD – 50059 from November 1, 2006 to June 1, 2006.
Cause:	As the result of a review by Indiana Quadel, HUD – 50059 was required to be redone. This resulted in a change in the rental assistance payment amount, which was not properly reflected on the monthly application for housing assistance payments.
Questioned costs:	$545
Recommendation:	Control procedures over preparation of the monthly Application for Housing Assistance Payments should be reviewed by management to determine if they are adequate.