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STATE OF INDIANA

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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, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Near North Development Corporation and Subsidiaries, as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. The Summary Schedule of Prior Audit Findings contains the status of two prior audit findings. The Schedule of Findings and Questioned Costs contains one current audit finding.

STATE BOARD OF ACCOUNTS

NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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, 2008 and 2007, 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, 2008 and 2007, 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, 2008, 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 or our audit.

Gauthier + Kimmerling, LLC

October 30, 2008

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

	2008	2007
ASSETS		
Cash	$ 192,819	$ 576,554
Accounts receivable	99,206	20,880
Grants receivable	71,579	86,324
Due from partnerships (Note 4)	-	22,282
Notes receivable, net of an allowance of $659,559 and $620,722 (Note 5)	-	177,047
Prepaid expenses	12,334	11,003
Certificates of deposit	152,081	-
Office equipment, net (Note 6)	8,431	11,001
Rental property, net (Note 6)	1,688,453	1,621,070
Property under development, net (Note 7)	628,791	884,490
Investments in subsidiaries (Note 4)	200	48,200
Escrows (Note 9)	13,561	13,021
Reserves (Note 9)	163,033	184,316
Capitalized costs (Note 10)	41,624	43,377
Total Assets	$ 3,072,112	$ 3,699,565
LIABILITIES		
Accounts payable	$ 63,229	$ 64,845
Notes payable (Note 8)	1,923,230	2,159,852
Deferred grant revenue	194,237	359,038
Other liabilities	26,656	15,033
Total Liabilities	2,207,352	2,598,768
NET ASSETS		
Unrestricted	864,760	1,096,320
Temporarily restricted (Note 13)	-	4,477
Total Net Assets	864,760	1,100,797
Total Liabilities and Net Assets	$ 3,072,112	$ 3,699,565

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,

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES						
Grant revenue	$ 345,425	$ 820,061	$ 1,165,486	$ 169,542	$ 835,926	$ 1,005,468
Contributions	38,588	-	38,588	56,930	-	56,930
Rental income	112,294	-	112,294	87,658	-	87,658
Reimbursement income	24,119	-	24,119	-	-	-
Interest	49,001	-	49,001	54,043	-	54,043
Other	29,332	-	29,332	59,038	-	59,038
Total revenue	598,759	820,061	1,418,820	427,211	835,926	1,263,137
Net assets released from restrictions	824,538	(824,538)	-	863,271	(863,271)	-
Total Revenue and Support	1,423,297	(4,477)	1,418,820	1,290,482	(27,345)	1,263,137
EXPENSES						
Home ownership program (Note 7)	274,919	-	274,919	51,762	-	51,762
Homeowner assistance	187,553	-	187,553	197,844	-	197,844
Rental property expenses	641,329	-	641,329	565,451	-	565,451
Development expenses	162,263	-	162,263	132,159	-	132,159
Administrative expenses (Note 17)	388,793	-	388,793	418,667	-	418,667
Total Expenses	1,654,857	-	1,654,857	1,365,883	-	1,365,883
Change in net assets	(231,560)	(4,477)	(236,037)	(75,401)	(27,345)	(102,746)
Net assets - beginning of year	1,096,320	4,477	1,100,797	1,171,721	31,822	1,203,543
Net assets - end of year	$ 864,760	$ -	$ 864,760	$ 1,096,320	$ 4,477	$ 1,100,797

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,

	2008	2007
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Changes in net assets	$ (236,037)	$ (102,746)
Adjustment to reconcile net assets to net cash provided by (used in) operations:		
Depreciation and amortization	93,434	89,243
Loss on sale of property	213,919	39,262
Impairment loss	100,000	-
Bad debt expense	76,080	46,517
Increase (decrease) in valuation allowance	61,000	12,500
(Increase) decrease in accounts and grants receivable	(139,661)	(135,477)
(Increase) decrease in prepaid expenses	(1,331)	-
(Increase) decrease in escrows	(540)	504
Increase (decrease) in accounts payable	(1,616)	27,569
Increase (decrease) in deferred grant revenue	(164,801)	44,412
Increase (decrease) in other liabilities	11,623	694
Cash Flows Provided By (Used In) Operating Activities	12,070	22,478
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Increase in property under development	(291,120)	(320,541)
(Increase) decrease in due from partnerships	22,282	(1,844)
Purchase of furniture and equipment	(2,571)	(4,293)
Additions to rental property	(253,924)	(1,844)
(Increase) decrease in notes receivable	177,047	(656)
Deposits to reserves	(26,104)	(25,607)
Withdrawals from reserves	47,387	10,566
Proceeds from sale of properties	271,900	238,600
(Increase) decrease in investments in subsidiaries	48,000	-
Purchase of certificates of deposit	(152,081)	-
Cash Flows Provided By (Used In) Investing Activities	(159,184)	(105,619)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Proceeds from borrowings	144,738	408,700
Debt repayments	(381,359)	(444,136)
Cash Flows Provided by (Used In) Financing Activities	(236,621)	(35,436)
Net increase (decrease) in cash	(383,735)	(118,577)
Cash - beginning of year	576,554	695,131
Cash - end of year	$ 192,819	$ 576,554
Interest paid during the year	$ 111,803	$ 113,945

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 (LISC).

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 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 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. 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. The reclassifications have no effect on the change in net assets for either year.

3. FINANCIAL INSTRUMENTS

NNDC maintains its cash in bank deposit accounts that exceed federally insured limits. As of June 30, 2008 and 2007, such excesses totaled approximately $86,000 and $257,000, 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 $200 and $48,200 at June 30, 2008 and 2007, 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.

The amount reported as due from partnerships, totaling $0 and $22,282 at June 30, 2008 and 2007, respectively, represents operation and construction advances.

5. NOTES RECEIVABLE

Notes receivable consist of the following at June 30:

	2008	2007
KP III, L.P.		
- Developer fee	$ -	$ 131,816
- Mortgage	-	45,231
Kenwood V, L.P.		
- HOME	424,003	403,006
- Developer fee	206,350	197,716
- Other	29,206	20,000
	659,559	797,769
Allowance for doubtful accounts	(659,559)	(620,722)
Total	$ -	$ 177,047

NNDC had a promissory note receivable from KP III, L.P. in the amount of $79,943, plus accrued interest for deferred developer fees. The note accrued interest at the rate of the Applicable Federal Rate (AFR) less 1% at the date of the note. No payments were received during the year ended June 30, 2007. The note was treated as paid as the result of NNDC receiving title to certain real property (see Note 4, above).

NNDC had issued a promissory note to KP III, L.P. in the original amount of $51,024, which was collateralized by a mortgage on certain real property. The note accrued interest at the rate of 6% per annum and was to mature December 9, 2010. The note called for 59 monthly principal and interest payments of $566 and a final balloon payment of $29,301. As of January 1, 2008, NNDC received title to the real property in lieu of foreclosure.

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. No payments were received during the year. The balance at June 30, 2008, totaled $424,003, including accrued interest.

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. No payments were received during the year ended June 30, 2008. The balance outstanding at year-end totaled $206,350, 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.

NNDC advanced Kenwood V $9,206 during the year for operation expenses.

6. PROPERTY AND EQUIPMENT

As of June 30, 2008, property and equipment consists of the following:

	Cost	Accumulated Depreciation	Net Book Value
Office equipment	$ 87,637	$ 79,206	$ 8,431
Rental property - single family	$ 334,048	$ 115,723	$ 218,325
- Caravelle	1,898,460	428,332	1,470,128
Total	$ 2,232,508	$ 544,055	$ 1,688,453

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 statement of activities.

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, 2008, consists of the following:

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

During fiscal year 2007, 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 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, 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 year 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 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:

	2008	2007
Mortgage - Caravelle Commons	$ 1,614,424	$ 1,640,465
Mortgage - 118/120 W. 23rd	-	5,805
Key Bank LOC	-	68,513
Clarian LOC	54,094	54,095
Children's Museum LOC	254,712	390,974
Total Notes Payable	$ 1,923,230	$ 2,159,852

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.

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 matured on June 29, 2008. The mortgage was repaid during the year.

(Continued)

8. NOTES PAYABLE – Continued

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 2008 and 2007 totaled $0 and $116,690, respectively. No amounts were outstanding at June 30, 2008 or 2007.

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 was renewed January 28, 2008, with a line of credit totaling $450,000. Interest accrues at the bank's prime rate plus 1.5%, payable on a monthly basis and advances under the line of credit are unsecured. The maximum amount outstanding during 2008 and 2007 totaled $114,514 and $127,677, 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 2008 and 2007 totaled $54,094.

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 2008 and 2007 totaled $254,712 and $390,974, respectively.

Scheduled maturities of notes payable are as follows:

Year ending June 30,	
2009	$ 336,687
2010	29,852
2011	31,962
2012	34,222
2013	36,641
Thereafter	1,453,866
Total	$ 1,923,230

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 - 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 - June 30, 2007	184,316	13,021	-	197,337
Additions	26,104	25,253	-	51,357
Withdrawals	(47,387)	(24,713)	-	(72,100)
Balance - June 30, 2008	$ 163,033	$ 13,561	$ -	$ 176,594

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.

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.

10. CAPITALIZED COSTS

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

	Basis	Accumulated Amortization
Permanent financing costs	$ 52,580	$ 10,956

Permanent financing costs are amortized over 30 years.

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 2008 and 2007 totaled $20,796 and $13,516, respectively.

(Continued)

11. OFFICE LEASE – Continued

Future minimum lease payments as of June 30, 2008, are as follows:

Year ending June 30,		
2009	$	20,796
2010		20,796
2011		20,796
2012		8,665
Total	$	71,053

12. GRANTS RECEIVED

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

Unrestricted Revenue --	
INHP/INDI	$ 132,708
Grants Recognized with Sale of Properties:	
HOME	163,008
The Children's Museum	49,709
Total Grants Recognized with Sale of Properties	212,717
Total Unrestricted Revenue	$ 345,425
Restricted Revenue --	
City of Indianapolis:	
HOME (2007 award - $15,000)	$ 3,380
HOME (2008 award - $15,000)	15,000
CDBG (2007 award - $177,390)	99,597
CDBG (2008 award - $163,800)	23,279
CDBG (2008 award - $2,975)	2,975
CDBG (2008 award - $246,375)	64,927
Total City of Indianapolis	209,158
Other Grants:	
INHP	3,076
LISC	114,013
The Children's Museum	13,721
Other	6,500
HUD - Caravelle	473,593
Total Other Grants	610,903
Total Restricted Revenue	$ 820,061

(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 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 $186,540 for costs incurred on properties held for resale. During the year ended June 30, 2008, additional funds of $19,700 were drawn and a home was sold with funds of $49,709 released to revenue. The balance of such funds in deferred grant revenue at June 30, 2008 was $156,531.

13. TEMPORARILY RESTRICTED NET ASSETS

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

	2008	2007
INHP - environmental remediation	$ -	$ 58
LISC - facade	-	4,419
	$ -	$ 4,477

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, 2008 or 2007.

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 $2,732 and $5,386 of expenses related to the plan for the years ended June 30, 2008 and 2007, 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.

Included in cash is a deposit account assigned to the mortgage holder on certain real estate of Kenwood V, L.P. (the L.P.). The general partner of the L.P., Kenwood V, is a wholly-owned subsidiary of NNDC. Upon default of the mortgage by the L.P., the mortgagor may, at its discretion, take any or all available funds from the deposit account and apply them to the outstanding mortgage balance. As of June 30, 2008 and 2007, the balance in the deposit account totaled $42,923 and $42,056, respectively.

16. SUBSEQUENT EVENT

On September 16, 2008, Caravelle signed a purchase agreement to sell .26 acres to Kroger for $75,000.

NNDC is currently in negotiations to sell its member interest in Caravelle. As of the date of this report, purchase terms and conditions were not finalized.

17. HUD REPAYMENT

Included in administrative expenses is $29,155 for the repayment of ineligible tenant assistance payments paid by Caravelle to HUD.

NEAR NORTH DEVELOPMENT CORPORATION AND SUBSIDIARIES

REPORTS PRESCRIBED BY OMB CIRCULAR A-133

JUNE 30, 2008

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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, 2008, and have issued our report thereon dated October 30, 2008. 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.

Gauthier & Lemmerling, LLC

October 30, 2008

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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

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, 2008. 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 item 08-01 in the accompanying schedule of findings and questioned costs, NNDC did not comply with requirements regarding housing quality standards 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, 2008.

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.

NNDC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit NNDC's response, and accordingly, we express no opinion on it.

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, 2008. 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.

Gauthier + Kimmerling, LLC

October 30, 2008

Near North Development Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

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	$ 31,786
Section 8 Housing Assistance Payments Program	14.195	N/A	441,808
Mortgage Insurance for the Purchase or Refinancing of Existing Multifamily Housing Projects	14.155	N/A	1,614,424
HOME Investment Partnership Program - City of Indianapolis	14.239	POI 6300168	6,132
		CIT 5300357	6,400
		POI 7300180	3,380
		POI 6300169	35,008
		POI 8300372	15,000
Community Development Block Grants - City of Indianapolis	14.218	POI 8300208	64,927
		POI 7300202	99,597
		POI 8300207	23,279
		POI 7300777	2,975
Community Development Block Grants - Local Initiatives Support Corporation (HUD Section 4)	14.218	40407-0039	10,208
		40407-0035	29,390
Total U.S. Department of Housing and Urban Development			2,384,314
Total Expenditures of Federal Awards			$ 2,384,314

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, 2008

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, 2008

ITEM NUMBER	AUDIT FINDING
07-01	Tenant income was not verified at the time of tenant move-in for 1 of the 13 files selected for testing at Carvelle Commons, LLC. Corrective Action: NNDC replaced the property management company as of January 1, 2008.
07-02	Rental assistance was requested for an amount not in agreement with HUD-50059 for 1 of 13 files selected for testing. Corrective Action: NNDC replaced the property management company as of January 1, 2008.

Near North Development Corporation
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

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: *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

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. 08-01

Condition: Caravelle Commons, a subsidiary of NNDC is in violation of its regulatory agreement with HUD.

Criteria: Entities receiving Section 8 housing assistance payments must provide housing that is decent, safe, and sanitary.

Effect: Caravelle is in violation of its regulatory agreement with HUD.

Cause: Caravelle failed both its initial physical inspection and subsequent reinspection.

Recommendation: HUD has recommended that the current management company, which began services January 1, 2008, be retained. HUD will monitor progress of physical repairs and improvements.

Management Response: NNDC agrees with HUD's finding and recommendations. NNDC has retained the new management agent, which began services January 1, 2008. The new agent provides on-site maintenance personnel, conducted a comprehensive physical inspection of the property after the failed re-inspection, and corrected all physical deficiencies identified at that time. A system of regular physical inspections of the property has been established, and replacement reserve draws are now used to fund necessary repairs and renovations when not supported by monthly cash flow, rather than deferring such repairs and renovations to a later date.