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STATE OF INDIANA

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October 17, 2011

Board of Directors
Hammond Development Corporation
5246 Hohman Ave., 1st Floor
Hammond, IN 46320

We have reviewed the audit report prepared by Clifton Gunderson, LLP, Independent Public Accountants, for the period January 1, 2006 to December 31, 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 Hammond Development Corporation, as of December 31, 2007 and 2006, and the results of its operations for the periods 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

HAMMOND DEVELOPMENT CORPORATION
Hammond, Indiana

FINANCIAL STATEMENTS
December 31, 2007 and 2006

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

To the Board of Directors
Hammond Development Corporation
Hammond, IN

We have audited the accompanying statements of assets, liabilities and net assets – income tax basis of Hammond Development Corporation (a not-for-profit organization) as of December 31, 2007 and 2006 and the related statements of revenue and expenses – income tax basis, functional expenses – income tax basis and cash flows – income tax basis for the years then ended. These financial statements are the responsibility of Hammond Development Corporation'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. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting the Company uses for income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects the assets, liabilities and net assets of Hammond Development Corporation as of December 31, 2007 and 2006, and its revenues and expenses and cash flows for the years then ended, on the basis of accounting described in Note 1.

Clifton Gunderson

Schererville, Indiana
November 3, 2009

HAMMOND DEVELOPMENT CORPORATION
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - INCOME TAX BASIS
December 31, 2007 and 2006

ASSETS

	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	$ 922,371	$ 802,631
Prepaid expenses	15,233	12,546
Note receivable - Lakeshore Chamber	5,893	15,977
Total current assets	943,497	831,154
PROPERTY AND EQUIPMENT		
Office equipment	33,789	32,054
Downtown Development rental properties	1,686,644	3,898,304
Downtown Development rehab properties in progress	818,615	565,047
Property held for resale	15,400	15,400
	2,554,448	4,510,805
Less: Accumulated depreciation	(224,643)	(538,132)
Total property and equipment	2,329,805	3,972,673
OTHER ASSETS		
Business Builders Loans, net	228,265	128,791
Other receivables	40,707	42,509
Investment in Indiana Building LLC	875,686	870,590
Total other assets	1,144,658	1,041,890
TOTAL ASSETS	$ 4,417,960	$ 5,845,717

LIABILITIES AND NET ASSETS

	2007	2006
CURRENT LIABILITIES		
Bank line of credit	$ 250,182	$ -
Accounts payable	19,238	19,425
Accrued expenses	234,076	91,164
Total current liabilities	503,496	110,589
SECURITY DEPOSITS	2,793	41,789
Total liabilities	506,289	152,378
NET ASSETS		
Unrestricted	3,271,830	5,070,167
Temporarily restricted	639,841	623,172
Total net assets	3,911,671	5,693,339
TOTAL LIABILITIES AND NET ASSETS	$ 4,417,960	$ 5,845,717

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

HAMMOND DEVELOPMENT CORPORATION
STATEMENT OF REVENUES AND EXPENSES - INCOME TAX BASIS
Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	2007 Total
REVENUES, GAINS AND OTHER SUPPORT			
Contributions	$ 302,000	525	$ 302,525
Towle Theater	204,897	-	204,897
Downtown High-Tech project rental income	135,153	-	135,153
Interest income	7,996	16,144	24,140
Miscellaneous income	2,853	-	2,853
Total Revenues, Gains and Other Support	652,899	16,669	669,568
EXPENSES AND LOSSES			
Downtown development	585,422	-	585,422
Business builders	22,723	-	22,723
Management and general	218,574	-	218,574
Total Expenses	826,719	-	826,719
Loss on sale of real estate	1,624,517	-	1,624,517
Total Expenses and Losses	2,451,236	-	2,451,236
CHANGES IN NET ASSETS	(1,798,337)	16,669	(1,781,668)
NET ASSETS, BEGINNING OF YEAR	5,070,167	623,172	5,693,339
NET ASSETS, END OF YEAR	$ 3,271,830	$ 639,841	$ 3,911,671

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

HAMMOND DEVELOPMENT CORPORATION
STATEMENT OF REVENUES AND EXPENSES - INCOME TAX BASIS
Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	2006 Total
REVENUES, GAINS AND OTHER SUPPORT			
Contributions	$ 505,000	2,540	$ 507,540
Towle Theater	190,997	-	190,997
Downtown High-Tech project rental income	251,008	-	251,008
Net gain on sale of buildings	4,902	-	4,902
Interest income	3,646	15,655	19,301
Miscellaneous income	86,395	-	86,395
Net assets released from restrictions	35,943	(35,943)	-
Total Revenues, Gains and Other Support	1,077,891	(17,748)	1,060,143
EXPENSES			
Downtown development	1,230,549	-	1,230,549
Business builders	82,048	-	82,048
Management and general	162,244	-	162,244
Total expenses	1,474,841	-	1,474,841
CHANGES IN NET ASSETS	(396,950)	(17,748)	(414,698)
NET ASSETS, BEGINNING OF YEAR	5,467,117	640,920	6,108,037
NET ASSETS, END OF YEAR	$ 5,070,167	$ 623,172	$ 5,693,339

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

HAMMOND DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS - INCOME TAX BASIS
Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,781,668)	$ (414,698)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	-	37,203
Pass-through loss on Indiana Building LLC investment	41,195	46,732
Depreciation and amortization	76,549	110,874
(Gain) loss on sale of real estate	1,624,517	(4,902)
Property donation	-	424,034
Effects of changes in operating assets and liabilities:		
Prepaid expenses and other assets	(2,687)	2,584
Note receivable - Lake Shore Chamber	10,084	6,917
Other receivables	1,802	(12,695)
Accounts payable	(187)	(20,162)
Accrued expenses and other liabilities	142,912	(12,017)
Security deposits	(38,996)	(9,053)
Net cash provided by operating activities	73,521	154,817
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(393,499)	(5,409)
Proceeds from sale of real estate	335,301	-
Funding of Business Builder loans	(161,701)	(15,212)
Payments received on Business Builder loans	62,227	42,025
Additional investment in Indiana Building LLC	(46,291)	(61,412)
Net cash used in investing activities	(203,963)	(40,008)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on (repayments of) line of credit, net	250,182	(31,554)
Net cash provided by (used in) financing activities	250,182	(31,554)
NET INCREASE IN CASH AND CASH EQUIVALENTS	119,740	83,255
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	802,631	719,376
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 922,371	$ 802,631

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

HAMMOND DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES - INCOME TAX BASIS
Year Ended December 31, 2007

	Program Services			
	Downtown Development	**Business Builders**	**Management and General**	**Total**
EXPENSES				
Home security rebates	$ 15,582	$ -	$ -	$ 15,582
Legal fees	-	7,804	27,959	35,763
Service fees- buildings	37,333	-	-	37,333
Russell Street property expenses - taxes, utilities, maintenance, repairs, insurance etc.	151,852	-	-	151,852
Pass-through loss from Indiana Building LLC	41,195	-	-	41,195
Towle Theater operating expenses	264,619	-	-	264,619
Consulting fees	24,558	-	-	24,558
Downtown tech campus marketing	1,263	-	-	1,263
5243 Hohman Avenue property expenses - taxes, utilities, maintenance, repairs, insurance etc.	49,020	-	-	49,020
Salary and wages	-	13,984	110,273	124,257
Marketing	-	326	-	326
E-course educational materials	-	335	-	335
Telephone	-	-	1,122	1,122
Depreciation - office equipment	-	-	3,717	3,717
Travel and entertainment	-	-	9,758	9,758
Office expenses	-	-	9,381	9,381
Insurance	-	-	7,939	7,939
Interest expense	-	-	9,194	9,194
Payroll taxes	-	-	11,491	11,491
Accounting and audit	-	-	13,088	13,088
Retirement plan	-	-	3,891	3,891
Health insurance	-	-	8,692	8,692
Training	-	-	2,069	2,069
Miscellaneous	-	274	-	274
TOTAL EXPENSES	$ 585,422	$ 22,723	$ 218,574	$ 826,719

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

HAMMOND DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES - INCOME TAX BASIS
Year Ended December 31, 2006

	Program Services			
	Downtown Development	Business Builders	Management and General	Total
EXPENSES				
Home security rebates	$ 6,983	$ -	$ -	$ 6,983
Legal fees	1,634	4,287	18,602	24,523
Service fees- buildings	31,751	-	-	31,751
Russell Street property expenses - taxes, utilities, maintenance, repairs, insurance etc.	445,055	-	-	445,055
Pass-through loss from Indiana Building LLC	46,732	-	-	46,732
Towle Theater operating expenses	253,410	-	-	253,410
Consulting fees	20,411	-	-	20,411
Downtown tech campus marketing	539	-	-	539
Property donation	424,034	-	-	424,034
Salary and wages	-	32,257	77,080	109,337
Bad debt	-	37,203	-	37,203
Marketing	-	3,822	-	3,822
E-course educational materials	-	1,899	-	1,899
E-course trainers	-	2,500	-	2,500
Dues and subscriptions	-	-	99	99
Telephone	-	-	1,236	1,236
Depreciation - office equipment	-	-	4,048	4,048
Travel and entertainment	-	-	5,738	5,738
Office expenses	-	-	6,940	6,940
Insurance	-	-	3,186	3,186
Interest expense	-	-	1,835	1,835
Printing and postage	-	-	99	99
Payroll taxes	-	-	8,833	8,833
Accounting and audit	-	-	18,436	18,436
Retirement plan	-	-	3,405	3,405
Health insurance	-	-	11,072	11,072
Miscellaneous	-	80	1,635	1,715
TOTAL EXPENSES	$ 1,230,549	$ 82,048	$ 162,244	$ 1,474,841

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

HAMMOND DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities -

Hammond Development Corporation, an Indiana not-for-profit organization, was formed to provide broad based charitable support for the development and redevelopment of the City of Hammond, including the stimulation of historical renovation, general business development, increase in commerce and trade, and general stimulation of the revitalization of the City of Hammond.

Business Builder Program -

On July 1, 1997 the Organization created its Business Builders program to support the City of Hammond's "Incubator Plan". The purpose of the "Incubator Plan" is to assist Hammond-based women and minority owned business enterprises. The program includes a revolving loan arrangement and educational programs and activities.

Downtown Hammond Rehab and Rental Properties -

The Organization expanded its small business incubation program by acquiring abandoned and vacant buildings in the downtown Hammond area through grants from the City of Hammond and contributions from area businesses. The Organization rehabilitated certain buildings to make useable business space available – through rental agreements and outright sales – to fledgling businesses that are not able to afford such space at current market prices, nor would the businesses be able to afford to renovate the abandoned spaces to make them business ready. One of the Organization's main initiatives has been to attract new high-tech internet start-up firms to downtown Hammond to replace and supplement the rust belt industries that once and still dominate the local economy.

Basis of Presentation -

The accompanying financial statements have been prepared on the accounting basis used by the Organization in preparing its Internal Revenue Service Form 990, *Return of Organization Exempt from Income Tax* ("income tax basis"). Consequently, the accrual basis of accounting is used except for the treatment of impairment losses on property and equipment. Losses on property and equipment are charged directly to activities upon sale.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Contributions -

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Contributions of non-cash assets are recorded at their estimated fair values at the date contributed.

Estimates -

The preparation of financial statements in conformity with the income tax basis of accounting requires the use of management's estimates. Certain account balances were estimated. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents -

For the purposes of the statement of cash flows, the Organization considers all short-term debt securities purchased with maturity of three months or less to be cash equivalents.

Income Tax Status -

The organization is a not-for profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Property and Equipment -

All acquisitions and improvements of property and equipment are capitalized and stated at cost. Contributed property and equipment are stated at fair market value at the date contributed. The Organization provides for depreciation using the straight-line method over the estimated useful life of the assets.

Real Estate Properties -

Real estate properties, including rental properties, properties held for resale, and rehab properties in progress are carried at cost, including cost of improvements and amenities incurred subsequent to acquisition. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Bad Debts -

Management maintains an allowance for doubtful accounts for estimated losses related to the Business Builder loan program.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

The allowance totaled $227,878 and $227,566 at December 31, 2007 and 2006, respectively.

NOTE 2 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions, which from time to time exceed the Federal depository insurance coverage limit.

NOTE 3 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	12/31/07	12/31/06
Business Builders Program	$ 639,841	$ 623,172

NOTE 4 NOTE RECEIVABLE – LAKESHORE CHAMBER OF COMMERCE

The Organization holds an unsecured note receivable from the Lakeshore Chamber of Commerce. The note bears no interest and is payable in monthly installments of $917. The loan matures in 2008. The balance of the note was $5,893 at December 31, 2007 and $15,977 at December 31, 2006.

NOTE 5 BUSINESS BUILDER LOANS

The Organization has established a revolving loan fund as part of its Business Builders Program. Loans outstanding totaled $456,143 at December 31, 2007 and $356,356 at December 31, 2006. The installment loans are granted to minority and women business enterprises that qualify under the plan. The loans bear interest between 6.0% and 7.15% and are payable in 60 or 120 monthly installments. The loans are secured by real estate and financing statements.

Maturities of the loans are as follows:

2008	$ 301,403
2009	67,279
2010	54,057
2011	38,032
2012	27,130
Thereafter	23,839
	511,740
Less: amount allocated for interest	(55,597)
Less: allowance for doubtful accounts	(227,878)
	$ 228,265

NOTE 6 INVESTMENT IN INDIANA BUILDING LLC

The Organization's 50% interest is accounted for using the equity method of accounting under which the Organization's share of the net income (or net loss) of the LLC is recognized in the Organization's statement of activities and added (or subtracted from) the investment account. The investment had a carrying value of $875,686 at December 31, 2007 and $870,590 at December 31, 2006.

Condensed financial information for the Indiana Building LLC is as follows:

	2007	2006
Current assets	$ 30,057	$ 27,736
Property and equipment	1,266,550	1,303,992
Current liabilities	29,815	28,053
Members capital	1,266,792	1,303,675
Rental and other income	$ 62,737	$ 53,646
Operating expenses	146,696	147,109
Net loss	(83,959)	(93,463)

NOTE 7 LINE OF CREDIT

The Organization has a $250,182 credit line through a local bank to finance the purchase of the 5243 Hohman Ave. property. The line bears interest at 7.35%, payable annually, and matured on July 7, 2008. The line was secured by rehab property. The outstanding balance on the line was $250,182 at December 31, 2007 and no balance due at December 31, 2006.

The credit line has been subsequently paid off by the maturity date of July 7, 2008.

NOTE 8 LEVERAGED LEASE

During 2002, the Organization entered into a twenty-year leveraged lease agreement with the Purdue Research Foundation (Foundation). The Organization agreed to purchase a building with the proceeds of a mortgage and the Foundation agreed to lease it for an amount approximately equaling the debt service for the term of the mortgage. The Foundation is responsible for all costs and improvements related to the operation of the building for the entire term of the lease. The lease agreement contains a purchase option that allows the Foundation to buy the building for the amount outstanding on the mortgage at any time during the lease. The monthly lease payment is $4,099 and the monthly payment on the mortgage is $3,816. The annual difference between the lease payments and the mortgage payments ($3,396) is recognized as income in the statement of activities. The net investment in a leveraged lease, if any, to be reported in the statement of financial position consists of rentals receivable, net of the portion applicable to principal and interest on the mortgage. The amount of income realized on this lease during 2007 was $3,456 and $3,435 during 2006.

NOTE 9 RETIREMENT ARRANGEMENT WITH STAFF EMPLOYEES

The Organization offers employees the opportunity to participate in a SIMPLE IRA plan. The Organization matches a portion of each employee's contribution. The expense to the Organization under this arrangement was $3,891 for 2007 and $3,405 for 2006.

NOTE 10 PROPERTY DONATION

During 2006, the Organization donated unimproved property with a book value of $424,034 to United Neighborhoods, Inc., an unrelated not-for-profit community development corporation that serves the City of Hammond.