



Memo

Date: February 22, 1996
To: Files
From: Larry Boysen
Subject: Addendum to Audit Summary Memo

The purpose of this memo is to summarize the significant issues encountered during the course of the audit of the 1994 consolidated financial statements of Near North National Group, Inc. ("NNNG"), and to document their resolution.

Background

NNNG is a holding company which owns several operating subsidiaries, primarily in the insurance brokerage and title services businesses. NNNG is wholly-owned by Near North Holdings, Inc. ("Holdings") which is wholly-owned personally by Mike Segal. In the past, since Mike owns all of the companies there has been somewhat of a comingling of personal and business activities in the accounts of the companies. In addition, some changes were recently made to the legal entity structure; however, changes were not made to the underlying books and records to reflect these changes. A copy of the legal entity organization chart is included in the permanent file.

Our engagement is to audit the 1994 consolidated financial statements of NNNG. Mike Segal's intent is that all of the personal and non-core business investments should be recorded at the Holdings level, therefore these will not be included in the NNNG consolidated financial statements. In order to achieve this, certain assets and liabilities have been transferred between legal entities. Since the consolidated group has not been audited in the past, many of these transfers were "pushed back" as if they occurred in prior years.

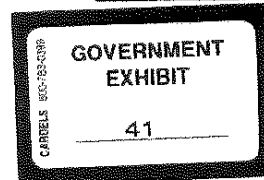
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GRAND JURY DOCUMENTS

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Limited Partnership Investments

Mike Segal has invested in several limited partnership investments, including the Chicago Bulls and Chicago White Sox. Some of these investments were made personally, others were made by Holdings, and still others were made by the operating companies. The historical recordkeeping and tax reporting for these limited partnership investments did not provide a clear trail for which investments belonged in each of these three categories.

Mike Segal reviewed all limited partnership investments with D&T in order to establish which investments are to be owned personally, by Holdings or by the operating companies. As indicated above, certain transfers were made between legal entities or to Mike Segal personally to get the investments in the right place. These transfers out of the entities included in the NNNG consolidated group have been treated as either a reduction of beginning retained earnings (dividends up to Holdings) or in several instances an addition to the Mike Segal advance account (personal investment).

Mike identified four limited partnership investments which are to remain in the operating companies; Buckingham Plaza L.P. (new investment in 1994), Grant Partners, Sheridan Road Lifestyles and L.J. Ventures. EITF Appendix D, Topic D-46 indicates that the SEC's position on limited partnership investments is that unless the ownership percentage is "so minor that the limited partner may have virtually no influence over partnership operating and financial policies", the equity method of accounting should be applied. The SEC considers investments of more than 3 to 5 percent as more than minor. While NNNG is not a public company, we have chosen to follow this guidance in accounting for these limited partnerships.

The Grant Partners investment is currently carried at \$178,640 which is equal to the capital account per the 1993 K-1. Review of the K-1 indicates that NNNG's ownership percentage is only .97%. As such, this investment should be carried at cost. Per review of the historical detail accumulated in support of the 1994 tax return, NNNG's investment in Grant Partners was \$100,000. No adjustment has been made to adjust this investment as the difference is immaterial.

The Sheridan Road Lifestyles investment is currently carried at \$108,406 which approximates cost. The 1994 K-1 indicates that NNNG's ownership percentage is 1.45%, therefore this investment should be carried at cost. The capital account per the 1994 K-1 is a deficit of \$254,312. Based on the immateriality of the investment, there is no significant exposure with respect to diminution in value.

The Buckingham Plaza investment was made in 1994, with an initial investment of \$250,000. The K-1 does not indicate NNNG's ownership percentage, but based on the amount of the investment it appears cost is the appropriate basis for this investment.

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