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**ANNUAL AUDITED REPORT**  
**FORM X-17A-5**  
**PART III**

RECEIVED  
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 SECTION

SEC FILE NUMBER  
 8- 32775

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
 Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 1/1/06 AND ENDING 12/31/06  
 MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: INLAND SECURITIES CORPORATION

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

2901 Butterfield Road

(No. and Street)

Oak Brook

IL

60523

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Catherine Lynch

(630) 218-8000

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG LLP

(Name - if individual, state last, first, middle name)

303 East Wacker Drive

Chicago

IL

60601

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

**PROCESSED**

**MAR 21 2007**

**FOR OFFICIAL USE ONLY** THOMSON  
 FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Catherine L. Lynch, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Inland Securities Corporation, as of December 31, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_



Mary J. Pechous  
Notary Public

Catherine L. Lynch  
Signature  
Treasurer  
Title

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Financial Statements and Schedule

December 31, 2006

(With Independent Auditors' Report Thereon)



KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

## Independent Auditors' Report

The Board of Directors and Stockholder  
Inland Securities Corporation:

We have audited the accompanying statement of financial condition of Inland Securities Corporation (wholly owned by Inland Real Estate Investment Corp.) (the Company) as of December 31, 2006, and the related statements of operations, stockholder's equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inland Securities Corporation as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary schedules on pages 11 and 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. 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.

KPMG LLP

February 26, 2007

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Statement of Financial Condition

December 31, 2006

<b>Assets</b>	
Cash and cash equivalents	\$ 29,741,408
Commissions receivable	4,256,047
Interest receivable	25,802
Common stock	36,948
Other assets	<u>132,061</u>
Total assets	<u>\$ 34,192,266</u>
<b>Liabilities and Stockholder's Equity</b>	
<b>Liabilities:</b>	
Commissions payable	\$ 14,428,470
Accounts payable and accrued expenses	438,594
Income tax payable to IREIC	1,061,025
Deferred tax liability	<u>8,518</u>
Total liabilities	<u>15,936,607</u>
<b>Stockholder's equity (note 2):</b>	
Common stock, \$.01 par value. Authorized 10,000 shares; issued and outstanding 1,000 shares	10
Additional paid-in capital	6,802,253
Retained earnings	<u>11,453,396</u>
Total stockholder's equity	<u>18,255,659</u>
Total liabilities and stockholder's equity	<u>\$ 34,192,266</u>

See accompanying notes to financial statements.

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Statement of Operations

Year ended December 31, 2006

Revenues:		
Commissions (note 3)	\$	162,106,850
Interest and other income		770,929
Unrealized gain on common stock		<u>21,348</u>
Total revenues		<u>162,899,127</u>
Expenses:		
Commissions		147,883,917
Employee compensation and benefits		5,155,789
Other operating expenses		<u>5,160,870</u>
Total expenses		<u>158,200,576</u>
Income before income taxes		4,698,551
Income tax expense		<u>(1,874,722)</u>
Net income	\$	<u><u>2,823,829</u></u>

See accompanying notes to financial statements.

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Statement of Stockholder's Equity

Year ended December 31, 2006

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total stockholder's equity</u>
Balance at December 31, 2005	\$ 10	6,802,253	12,629,567	19,431,830
Dividends paid	—	—	(4,000,000)	(4,000,000)
Net income	—	—	2,823,829	2,823,829
Balance at December 31, 2006	\$ <u>10</u>	<u>6,802,253</u>	<u>11,453,396</u>	<u>18,255,659</u>

See accompanying notes to financial statements.



**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Statement of Cash Flows

Year ended December 31, 2006

Cash flows from operating activities:	
Net income	\$ 2,823,829
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	41,917
Unrealized gain in common stock	(21,348)
Changes in assets and liabilities:	
Increase in interest receivable	(25,802)
Decrease in warrants	825
Increase in commissions receivable	(3,602,033)
Decrease in mortgage notes receivable	450,000
Increase in commissions payable	12,613,106
Increase in accounts payable and accrued expenses	99,756
Increase in income tax payable	366,204
Increase in deferred tax liability	8,518
Net cash flow provided by operating activities	<u>12,754,972</u>
Cash flows from investing activities:	
Purchase of other assets	<u>(37,346)</u>
Net cash flow used in investing activities	<u>(37,346)</u>
Cash flows used in financing activities:	
Dividends paid	<u>(4,000,000)</u>
Net cash flow used in financing activities	<u>(4,000,000)</u>
Net increase in cash and cash equivalents	8,717,626
Cash and cash equivalents at beginning of period	<u>21,023,782</u>
Cash and cash equivalents at end of period	<u>\$ 29,741,408</u>
Supplemental disclosure:	
Income taxes paid to IREIC	\$ 1,500,000

See accompanying notes to financial statements.

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Notes to Financial Statements

December 31, 2006

**(1) General Information and Summary of Significant Accounting Policies**

Inland Securities Corporation (the Company) is registered as a broker and dealer in securities under the Securities Exchange Act of 1934. Inland Real Estate Investment Corp. (IREIC) is the sole stockholder. The Inland Group, Inc. (Inland) is the ultimate parent.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could subsequently differ from such estimates. A description of significant accounting policies follows:

***Commissions***

In connection with the marketing of investment programs, commissions are based upon a percentage of a third-party investment in the related interest. For financial reporting and income tax purposes, these commissions are earned and the related expense is incurred at the time the third-party investment is accepted by the offering party.

***Cash and Cash Equivalents***

For purposes of reporting cash flows, the Company considers all investments with an original maturity of three months or less to be cash equivalents.

***Fair Value of Common Stock***

The Company's investment in common stock is reported in the statement of financial condition at fair value.

***Income Taxes***

The Company is included in the consolidated federal and combined unitary state income tax returns of Inland.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Notes to Financial Statements

December 31, 2006

**(2) Net Capital Requirements**

Pursuant to the Securities and Exchange Commission Uniform Net Capital Rule, the Company is required to maintain minimum net capital and maintain an allowable ratio of aggregate indebtedness to net capital as defined under this rule. At December 31, 2006, the Company had net capital and net capital requirements of \$17,146,321 and \$1,062,441, respectively. The Company's ratio of aggregate indebtedness to net capital was approximately 0.93 to 1.

**(3) Related-Party Transactions**

Commission income of \$162,106,850 was derived from the sale of interests in investment programs in which IREIC's wholly owned subsidiaries are the advisor or asset manager.

The Company is charged direct costs for specific legal, payroll processing, information technology services, and certain other administrative services performed by administrative departments of IREIC. Such amounts totaled approximately \$99,484 for the year ended December 31, 2006. In addition, the Company paid rent to IREIC of approximately \$31,169 for the year ended December 31, 2006. In the opinion of management, the aforementioned administrative costs and rent are believed to be reasonable; however, it is not necessarily indicative of the expense the Company may have incurred on its own account.

**(4) Income Taxes**

The Company is party to a tax sharing agreement, which provides that income tax expense or benefit be reflected on a separate company basis. At December 31, 2006, the Company had a deferred tax asset of \$8,518 related to the change in fair value of the Company's investment in common stock. The Company incurred \$1,874,722 in income tax expense for the year ended December 31, 2006. Income tax expense for the year ended December 31, 2006 differs from expected income tax expense (computed by applying the U.S. federal income tax rate of 35% to pretax income) principally due to the benefit state and local income taxes have on the U.S. federal income tax rate.



KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

### **Independent Auditors' Report on Internal Accounting Control Required by SEC Rule 17a-5**

The Board of Directors and Stockholder  
Inland Securities Corporation:

In planning and performing our audit of the financial statements and supplemental schedule of Inland Securities Corporation (wholly owned by Inland Real Estate Investment Corp.) (the Company) for the year ended December 31, 2006, in accordance with the auditing standards generally accepted in the United States of America, we considered the Company's internal control 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 the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company. This study includes tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by rule 15c3-3

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. One of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

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 was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2006 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the NASD, and any other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 26, 2007

END

**INLAND SECURITIES CORPORATION**  
 (Wholly Owned by Inland Real Estate Investment Corp.)  
 Schedule of Computation of Net Capital Under Rule 15c3-1  
 of the Securities and Exchange Commission

December 31, 2006

Net capital:		
Stockholder's equity	\$	18,255,659
Deductions:		
Nonallowable assets:		
Commissions receivable		945,933
Haircut on common stock		5,542
Interest receivable		25,802
Other assets		132,061
Total deductions		<u>1,109,338</u>
Net capital		17,146,321
Minimum capital required to be maintained (greater of \$5,000 or 6-2/3% of aggregate indebtedness)		<u>1,062,441</u>
Excess net capital	\$	<u>16,083,880</u>
Aggregate indebtedness – total liabilities	\$	<u>15,936,607</u>
Ratio of aggregate indebtedness to net capital		<u>0.93</u>

Note 1: The above computation does not materially differ from the computation of net capital under Rule 15c3-1 as of December 31, 2006 filed by Inland Securities Corporation in its Form X-17a-5 with the National Association of Securities Dealers, Inc.

See accompanying independent auditors' report.

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Computation for Determination of Reserve Requirements and  
Information Related to Possession or Control Requirements Under  
Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2006

The Company claims exemption for the provision of Rule 15c3-3 of the Securities Exchange Act of 1934 pursuant to Section (k)(3) of the Rule.

See accompanying independent auditors' report.