Port of Greater Cincinnati Development Authority

Accountants' Report and Financial Statements

December 31, 2003 and 2002

Auditor of State
Betty Montgomery

Board of Directors
Port of Greater Cincinnati Development Authority
1014 Vine St.
Suite 1440
Cincinnati, OH 45202

We have reviewed the Independent Auditor's Report of the Port of Greater Cincinnati Development Authority, Hamilton County, prepared by BKD LLP, for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Port of Greater Cincinnati Development Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 11, 2005

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Port of Greater Cincinnati Development Authority

December 31, 2003 and 2002

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Independent Accountants' Report

Board of Directors
Port of Greater Cincinnati Development Authority
Cincinnati, Ohio

We have audited the accompanying general purpose financial statements of the Port of Greater Cincinnati Development Authority as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Port of Greater Cincinnati Development Authority's management. Our responsibility is to express an opinion on these general purpose 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 audit 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.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Port of Greater Cincinnati Port Authority as of December 31, 2003 and 2002, and the results of its operations 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 May 6, 2004, on our consideration of the Port of Greater Cincinnati Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BKD, LLP

May 6, 2004

Port of Greater Cincinnati Development Authority

Balance Sheets

December 31, 2003 and 2002

	2003	2002
Assets		
Cash	$ 434,885	$ 491,029
Accounts receivable	102,717	42,434
Prepaid expenses	5,013	7,712
Property held for redevelopment	374,887	374,887
Property and equipment, net	24,441	27,216
Total assets	$ 941,943	$ 943,278
Liabilities and Fund Equity		
Liabilities		
Accounts payable	$ 65,538	$ 77,318
Accrued expenses	60,005	90,983
Refundable deposit	10,000	10,000
Total liabilities	135,543	178,301
Fund Equity		
Contributed capital	380,480	380,480
Retained earnings	425,920	384,497
Total fund equity	806,400	764,977
Total liabilities and fund equity	$ 941,943	$ 943,278

Port of Greater Cincinnati Development Authority

Statements of Revenues, Expenses and Changes in Retained Earnings

Years Ended December 31, 2003 and 2002

	2003	2002
Operating Revenues		
Public funding	$ 626,665	$ 730,000
Charges for services	188,565	43,964
Other income	379	14,530
Total operating revenues	815,609	788,494
Operating Expenses		
Salaries and benefits	337,039	285,779
Professional services	247,371	432,064
Occupancy	27,609	26,496
Travel	6,462	4,205
Equipment and supplies	41,426	17,502
Other operating expenses	117,587	46,142
Total operating expenses	777,494	812,188
Operating Income (Loss)	38,115	(23,694)
Interest Income	3,308	4,263
Net Income (loss)	41,423	(19,431)
Retained Earnings, Beginning of Year	384,497	403,928
Retained Earnings, End of Year	$ 425,920	$ 384,497

Port of Greater Cincinnati Development Authority

Statements of Cash Flows

Years Ended December 31, 2003 and 2002

	2003	2002
Cash Flows From Operating Activities		
Receipts from public funding sources	$ 725,165	$ 730,000
Receipts from charges for services	20,829	43,964
Receipts from other sources	9,332	36,134
Paid to vendors	(543,391)	(385,348)
Paid to employees	(265,316)	(211,460)
Net Cash (Used in) Provided by Operating Activities	(53,381)	213,290
Cash Flows Used in Capital and Related Financing Activities for Payments for Capital Acquisitions	(6,071)	(971)
Cash Flows Provided by Investing Activities from Receipts of Interest Income	3,308	4,263
(Decrease) Increase in Cash	(56,144)	216,582
Cash, Beginning of Year	491,029	274,447
Cash, End of Year	$ 434,885	$ 491,029
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	$ 38,115	$ (23,694)
Adjustments for items not requiring cash for operating activities:		
Depreciation and amortization	8,846	5,563
Changes in Assets and Liabilities		
Accounts receivable	(60,283)	160,448
Prepaid expenses	2,699	(1,977)
Accounts payable	(11,780)	61,619
Accrued expenses	(30,978)	11,331
Net Cash (Used in) Provided by Operating Activities	$ (53,381)	$ 213,290

Note 1: Summary of Significant Accounting Policies

Description of the Entity

The Port of Greater Cincinnati Development Authority (the Port Authority) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. As authorized by Ohio Revised Code section 4582.22, the City of Cincinnati, Ohio and Hamilton County, Ohio created the Port Authority on December 7, 2000.

The Port Authority has limited authority to redevelop the Cincinnati Central Riverfront in accordance with the Central Riverfront Urban Design Master Plan and to identify, restore, and redevelop properties in Hamilton County affected or perceived to be affected by environmental contamination.

The Port Authority management believes this financial statement presents all activities for which the Port Authority is financially accountable.

Basis of Accounting

The financial statements of the Port Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port Authority also applies Financial Accounting Standards (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements.

Enterprise accounting is used to account for operations that are financial and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The Port Authority maintains budgetary control by not permitting total expenditures and amounts charged to individual expense categories to exceed their respective appropriations without amendment of appropriations by the Board of Directors. All unencumbered appropriations lapse at year-end.

Property and Equipment

Property and equipment are stated at cost and depreciated over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements. Property held for redevelopment is environmentally contaminated, or perceived to be contaminated, and is not depreciated until redevelopment is completed.

Note 2: Change in Accounting Principle

In 2003 the Port Authority adopted the provisions of Government Accounting Standards Board Statement ("GASBS") No. 40, *Deposit and Investment Risk Disclosures,* by retroactively restating prior year's financial statements. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Adoption of GASBS No. 40 had no effect on the retained earnings and net income in the prior or current year.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Port Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Ohio; bonds of any city, county, school district or special road district of the state of Ohio; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2003 and 2002, respectively, $153,604 and $220,699 of the Port Authority's bank balances of $484,195 and $551,191 were exposed to custodial credit risk as these deposits were uninsured and uncollateralized.

The carrying value of deposits included in the balance sheets is $434,885 and $491,029 at December 31, 2003 and 2002, respectively.

Note 4: Accounts Receivable

Accounts receivable consist of the following at December 31, 2003 and 2002:

	2003	2002
Mill Creek Restoration Project	$ 62,216	$ 20,829
Fairfax Project	22,470	—
Refundable payroll taxes	18,031	21,605
	$ 102,717	$ 42,434

Note 5: Property and Equipment

Property and equipment consists of the following at December 31:

	2003	2002
Office equipment	$ 30,843	$ 24,772
Leasehold improvements	10,188	10,188
	41,031	34,960
Less accumulated depreciation and amortization	(16,590)	(7,744)
	$ 24,441	$ 27,216

Note 6: Refundable Deposit

During 2001, the Port Authority entered into a development agreement for a parcel of property owned by the Port Authority. Subject to satisfaction of all the preconditions stated in the development agreement, the Port Authority will perform certain site preparation work. Upon completion of the site preparation work, the Port Authority, at its discretion, will lease or sell the property to the developer. The developer will then complete construction of the project.

The developer has made a "good-faith" deposit which is refundable only in the event the preconditions of the development agreement are not met.

In July 2002, the Port Authority received approval for a grant from the State of Ohio Clean Ohio Revitalization Fund totaling $1,500,000. This grant is to be used for the site preparation work at the property that is subject to the development agreement mentioned above. The estimated costs to complete the site preparation work is approximately $2,500,000 and the Port Authority has received commitments to fund this site work.

Note 7: Public Funding

For the period ended December 31, 2003 and 2002, public funding for the Port Authority came from the following sources:

	2003	2002
Hamilton County, Ohio	$ 200,000	$ 350,000
City of Cincinnati, Ohio	384,548	200,000
Princeton City School District	—	180,000
United States Environmental Protection Agency	42,117	—
	$ 626,665	$ 730,000

The Port Authority is dependent upon these continued sources of funding for continued operations. The City and the County have each agreed to provide $350,000 in 2004.

Note 8: Operating Leases

Noncancellable operating leases for office space and equipment expire in 2004. The office lease contains thirteen semi- annual renewal options commencing April 30, 2003.

Future minimum lease payments at December 31, 2003, were:

2004	$ 28,074

Note 9: Pension Plan

All full time employees are required to join the Ohio Public Employees Retirement System (OPERS). Employees may select from three offerings: defined benefit plan, defined contribution plan, and a combined (contribution and benefit) plan. OPERS issues a stand-alone Comprehensive Annual Financial Report, copies of which may be obtained on the internet at www.opers.org, by making a written request to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085.

Pension Benefits – OPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. Benefits are fully vested upon reaching five years of service and are established by state statute.

Defined benefit plan – Participants may retire at any age with 30 years of service, at or after age 60 with five years of credited service and at age 55 with a minimum of 25 years of service. Those individuals retiring with less than 30 years of service or less than age 65 receive reduced retirement benefits. Upon retirement, participants are entitled to a retirement benefit, payable monthly for life, equal to 2.2% of their final average salary for each year of credited service up to 30 years. These members are entitled to 2.5% of their final average salary for each year of service in excess of 30 years. Final average salary is calculated as the participant's average salary over the highest three years of earnings.

Defined contribution plan – Participants may retire after age 55 regardless of years of service. Employee contributions are 100% vested, while employer contributions vest proportionately over a five year period. Employees may be eligible for limited health care benefits at retirement. Disability, cost of living adjustments, and death benefits are not applicable to the plan.

Pension Contributions – Employer and employee required contributions to OPERS are established under Chapter 742 of the Ohio Revised Code and are based on percentages of covered employees' gross salaries. Contribution rates are calculated annually by the OPERS actuaries. Contribution rates for calendar year 2003 amounted to 8.5% for the employee share and 13.55% for the employer share. Employer contributions required amounted to $35,220 and $32,230 for 2003 and 2002, respectively.

Note 10: Risk Management

The Port Authority is exposed to various risks of loss related to torts – theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

The Port Authority pays into the State of Ohio Bureau of Workers Compensation System. Workers claims are submitted to the State of Ohio for authorization and payment to the injured employee. The Port Authority has no further risk. The State of Ohio establishes employer payments, employee payments, and adequate reserves.

Note 11: Kenwood Office Project

In September 1985, the Port Authority, through its predecessor organization, issued $8 million of Daily Adjustable Economic Development Revenue Bonds, Series 1985 (the Bonds) for the purpose of making a loan to assist Kenwood Office Associates in providing financing of the costs of acquiring, constructing and installing real and personal property constituting commercial office facilities to be owned by Kenwood Office Associates. A letter of credit has been issued to benefit the Trustee to secure the repayment of the Bonds and up to 62 days' interest on the Bonds. The repayment of the loan is secured by a pledge of the revenues and receipts of the project. The Bonds are secured by a mortgage on, and a security interest in, the project granted by Kenwood Office Associates to the Trustee and the issuer of the letter of credit.

The Bonds are a special, limited obligation of the Port Authority, and the principal and interest and any premium on these Bonds are payable solely from the pledged receipts and are not otherwise an obligation of the Port Authority. The Bonds are not secured by any other obligation of the Port Authority or any pledge of any moneys raised by taxation and does not constitute a debt or pledge of the faith and credit of the Port Authority of the State of Ohio or any political subdivision or agency of instrumentality thereof.

The Bonds are payable as follows only from the funds pledged to secure the Bonds:

2004	300,000
2005	300,000
2006	300,000
2007	300,000
2008	300,000
Thereafter	5,200,000
	$ 6,700,000

Note 12: Cincinnati Zoo Project

In November 2003, the Port Authority issued $4 million of Variable Rate Demand Revenue Bonds, Series 2003 (the Bonds) for the purpose of making a loan to assist the Cincinnati Zoo in providing financing costs of building a parking garage for use in its business of providing public and zoological and botanical exhibition facility. A letter of credit has been issued to benefit the Trustee to secure the repayment of the Bonds and up to 52 days' interest on the Bonds. The repayment of the loan is secured by a pledge and lien on moneys deposited in the Construction Fund and the Bond Fund, and a pledge and assignment of other moneys constituting pledged receipts and the issuer of the letter of credit.

The Bonds are a special, limited obligation of the Port Authority, and the principal and interest and any premiums on these Bonds are payable solely from pledged receipts and are not otherwise an obligation of the Port Authority. The Bonds are not secured by any other obligation of the Port Authority of any pledge of moneys raised by taxation and does not constitute a debt or pledge of faith and the credit of the Port Authority and the State of Ohio or any political subdivision or agency of instrumentality thereof.

The Bonds are payable as follows only from the funds pledged to secure the Bonds:

2004	$ 150,000
2005	155,000
2006	160,000
2007	160,000
2008	165,000
Thereafter	3,210,000
	$ 4,000,000

Note 13: National Underground Railroad Freedom Center Project

In April 2003, the Port Authority issued $50 million of Adjustable Rate Demand Revenue Bonds, Series 200rse 3A (the Bonds) to provide funds to lend to the National Underground Railroad Freedom Center, Inc., which will be used by the Corporation to finance, refinance or reimburse itself for all or a portion of the costs of the acquisition, construction, renovation, improvement and equipping of a new museum and arts, cultural, educational and research center. Four letters of credit have been issued to benefit the Trustee to secure the repayment of the Bonds. The repayment of the loan is secured by a pledge and a lien on and security interest in, the right, title and interest in and to the pledged bonds, the interest thereon and all proceeds thereof.

The Bonds are a special, limited obligation of the Port Authority, and the principal and interest and any premiums on these Bonds are payable solely from pledged receipts and are not otherwise an obligation of the Port Authority. The Bonds are not secured by any other obligation of the Port Authority of any pledge of any moneys raised by taxation and does not constitute a debt or pledge of faith and the credit of the Port Authority and the State of Ohio or any political subdivision or agency of instrumentality thereof.

The Bonds are payable in 2038 only from the funds pledged to secure the Bonds.

Note 14: New Accounting Standards

The GASB has issued Statement No. 34, Basis Financial Statements – and Management's Discussion and Analysis - for State and Local Governments, Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements are effective for the Port Authority's year ending December 31, 2004. The Authority has not completed an analysis of the impact of these statements on its reported financial condition and results of operations.

Supplementary Information

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Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements in Accordance with *Government Auditing Standards*

Board of Directors
Port of Greater Cincinnati Development Authority
Cincinnati, Ohio

We have audited the financial statements of the Port of Greater Cincinnati Development Authority (the Port Authority) as of and for the year ended December 31, 2003, and have issued our report thereon dated May 6, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Port Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Port Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-01 and 03-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting and its operation that we have reported to the Port Authority's management in a separate letter dated May 6, 2004.

This report is intended solely for the information and use of the Board of Directors and management is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 6, 2004

Port of Greater Cincinnati Development Authority

Schedule of Findings and Questioned Costs

Year Ended December 31, 2003

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
03-01	During our testing of thirty-one cash disbursements greater than $4,000, we noted seven disbursements totaling $45,266 that did not have supporting documentation. Supporting documentation for all transactions should be maintained in a secure location.	
03-02	During our testing for unrecorded liabilities, we noted one instance of improper cut-off of expenses and liabilities totaling $64,306 that should have been accrued in 2003 instead of expensed when paid in 2004. All unpaid invoices at year end should be reviewed to determine the proper accrual of expenses.	

Auditor of State
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PORT OF GREATER CINCINNATI DEVELOPMENT AUTHORITY

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 10, 2005