Port of Greater Cincinnati Development Authority

Accountants’ Report and Financial Statements

December 31, 2007 and 2006

Mary Taylor, CPA
Auditor of State

Board of Directors
Port of Greater Cincinnati Development Authority
1014 Vine Street
Cincinnati, Ohio 45202-1163

We have reviewed the *Independent Accountants' Report* of the Port of the Greater Cincinnati Development Authority, Hamilton County, prepared by BKD, LLP, for the audit period January 1, 2007 through December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 22, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

Port of Greater Cincinnati Development Authority

December 31, 2007 and 2006

Contents

This Page is Intentionally Left Blank.

BKD LLP

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of the Port of Greater Cincinnati Development Authority as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Port of Greater Cincinnati Development Authority'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 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Port of Greater Cincinnati Development Authority as of December 31, 2007 and 2006, and the changes in financial position and cash flows for the year 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 July 25, 2008, on our consideration of the Organization's internal control over financial reporting and 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 of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

July 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2007, 2006 and 2005

INTRODUCTION

As management of the Port of Greater Cincinnati Development Authority ("Port Authority"), we offer readers of the Port Authority's financial statements this narrative overview and analysis of the financial activities of the Port Authority for the fiscal years ended December 31, 2007, 2006 and 2005. Please read this information in conjunction with the Port Authority's basic financial statements and footnotes for the years ended December 31, 2007 and 2006 that begin on page 11.

ORGANIZATIONAL HISTORY

In December 2000, the City of Cincinnati, Ohio and Hamilton County, Ohio collaborated to create the Port of Greater Cincinnati Development Authority. This new entity replaced an existing port authority that the two governments had formed earlier to spearhead the redevelopment of brownfield properties. The newly created Port Authority was given a dual mission of overseeing Cincinnati's Central Riverfront Project envisioned by the City, the County, and the Riverfront Advisors Commission, as well as continuing the brownfield redevelopment activities of its predecessor agency.

MISSION

Through May 2005, the core mission of the Port Authority remained two-fold:

- To facilitate the implementation of the Central Riverfront Urban Design Master Plan for the mixed-use redevelopment of Cincinnati's Central Riverfront Area, commonly referred to as "The Banks."

- To facilitate the redevelopment of properties in Hamilton County known as brownfields, which are environmentally contaminated or perceived to be contaminated and are now vacant, abandoned, idle, or underutilized due to real or perceived contamination.

In early June 2005, the Hamilton County Commissioners determined that Hamilton County would proceed with the selection of the developer for The Banks project, as well as manage the implementation of the public and private sector improvements within The Banks Development Area. In response to the County's announcement, the Port Authority ceased activities related to The Banks project. Thereafter, through 2007, the Port Authority focused its economic development resources (human and financial capital) on the remediation and redevelopment of brownfield properties and on revenue bond financings for facilities that promote authorized purposes of the Port Authority.

PORT AUTHORITY POWERS

Historically, port authorities were created to conduct maritime activities, and later airport activities. But in Ohio, port authorities have evolved as an economic development tool. As independent units of government, Ohio port authorities may conduct the traditional waterborne and air transportation activities, as well as own property and provide financing for local economic development initiatives. Ohio law defines the "authorized purposes" of a port authority as "activities that enhance, foster, aid, provide, or promote transportation, economic development, housing, recreation, education, governmental operations, culture, or research within the jurisdiction of the port authority" and "activities authorized by Sections 13 and 16 of Article VIII, Ohio Constitution."

The referenced constitutional provisions permit a broad range of activities that assist the private sector with respect to economic and housing development and redevelopment. Ohio law generally permits port authorities to finance any "port authority facility" with revenue bonds, and it defines a port authority facility as property "owned, leased, or otherwise controlled or financed by a port authority and related to, useful for, or in furtherance of, one or more authorized purposes." These broad powers are complemented by expansive authority to enter into cooperative relationships with one or more other political subdivisions to undertake major development projects jointly.

PORT AUTHORITY TOOLS

Special Financings, Projects, and Programs

Under Ohio law, a port authority has a broad range of project management and funding capabilities - "tools" - that position it to play a unique role within communities. A port authority's "tool kit" consists of these important capabilities that enable it to participate creatively in a variety of ways in economic development projects.

Conduit Revenue Bond Financings: Port authorities may provide assistance through conduit revenue bond financing. These revenue bond financings are based on the creditworthiness of the borrower and are typically backed by a letter of credit from a financial institution. The issuing port authority has no obligation with respect to the bonds except to the extent of loan payments and, unless issued as part of a capital lease financing, would have no interest in the property financed. The Port Authority has several conduit revenue bond issues outstanding and provides such assistance upon request.

Cooperative Public Infrastructure Financings: The proceeds of port authority revenue bonds may be used to finance public facilities or properties to be owned by the port authority. Often these projects are undertaken in cooperation with one or more overlapping political subdivisions and supported by tax increment financing service payments, special assessments, or both, assigned by the political subdivision to the port authority. The bonds would be secured by the assignment of those revenues and would be non-recourse to the general revenues and assets of the port authority. The Port Authority has issued such bonds in the past and expects to continue to do so.

Project Incentives: Port authorities may act as the central point of contact for investigating and procuring local, state, and federal business-retention and expansion incentives.

Grant Programs: Ohio port authorities may apply for local, state, and federal grant funds, which generally are used for public infrastructure improvements made in support of local economic development efforts.

Common Bond Fund Programs: These programs provide credit enhancements and long-term, fixed-rate loans that make it possible for companies to access capital markets that they might not otherwise be able to access. Common bond funds are a tool that supplements the financing options available to small- and medium-sized companies within the community. The Port Authority has not yet utilized any such program through 2007 although it has access to the Ohio Enterprise Bond Fund Program and, through cooperative agreements, existing common bond fund programs of other Ohio port authorities. In addition, if justified by demand, the Port Authority could seek capital to fund such a program sponsored by the Port Authority.

Lease Financing Projects: Port authorities may provide assistance through issuance of revenue bonds to finance the acquisition, construction, and leasing of a project to provide financial and accounting advantages to non-governmental users. Lease financings have been used to convey a variety of incentives, such as sales tax exemption on building materials incorporated into buildings owned by a port authority and accounting advantages to the lessee/user of the project. Lease financings have typically been undertaken by port authorities in the categories of capital lease, operating lease, or synthetic lease. The Port Authority has provided capital lease financing.

Property Ownership: Ohio port authorities have broad powers to acquire, construct, and own real or personal property, or any combination of real or personal property, to further any authorized purpose. This includes the power to own and improve property if doing so helps to create or preserve jobs and economic or business development opportunities. This is especially helpful when a property has negative value, as in the case of a brownfield site where barriers such as liens and environmental issues are impediments to redevelopment. Further, port authorities may sell, lease (to or from others and with or without purchase options), and convey other interests in real or personal property, improved or unimproved as well. The Port Authority has owned and improved property.

Project Coordination: Port authorities can facilitate and coordinate the various regulatory approvals needed from multiple agencies or jurisdictions particularly helpful for assistance with complicated large-scale projects as well as brownfield redevelopment projects. As a result, the development process is streamlined, and projects can move forward more quickly and efficiently.

2007 PROJECT SUMMARY

This discussion and analysis is intended to serve as an introduction to the Port Authority's basic financial statements. Port Authority economic development activities include brownfield-related project activities and project revenue bond financings.

Summary of Grant Funds – Brownfield Projects

The intended result of the Port Authority's involvement in the City of Cincinnati, Ohio and Hamilton County, Ohio area brownfield redevelopment is to recycle area land resources back into productive reuse. To achieve this result, the Port Authority responded to the development needs of the private sector by creating public-private partnerships in support of the redevelopment of environmentally challenged properties. The Port Authority played a variety of roles in the redevelopment of brownfield properties including property owner, grant recipient, and revenue bond provider. With regard to the grant funding source listed below (Clean Ohio Fund Program), as this is a grant reimbursement program, grant funds would not be received by the Port Authority until the public improvements described in the grant applications had been undertaken.

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2007, 2006 and 2005

Project Name	Clean Ohio Funds
Cleanups/Assessments Completed During 2005 Through 2007	
3333 Vine Street, Cincinnati, Ohio	$ 496,151
4000 Red Bank Road, Fairfax, Ohio	3,000,000
5025 Carthage Avenue, Norwood, Ohio	750,000
Subtotal	4,246,151
On-going Cleanups Awarded During 2005	
320 S. Anthony Wayne Avenue, Lockland, Ohio	2,882,130
On-going Cleanups Awarded During 2006	
4101 Spring Grove Avenue, Cincinnati, Ohio	750,000
Total	$ 7,878,281

Summary of Revenue Bond Financings

In support of economic development and other authorized projects within the City of Cincinnati and Hamilton County, the Port Authority considers and, with Board approval, issues revenue bonds. One financing was closed in 2007 (approximately $3,798,000 of which financed Port Authority assets and the balance of which is treated as a conduit revenue bond issue). Three financings were closed in 2006 and no financings were closed in 2005.

Date of Issue	Project Name	Bond Amount
May 2007	Fairfax Red Bank Public Infrastructure	$ 7,675,000

Date of Issue	Project Name	Bond Amount
January 2006	Cincinnati Zoo Conduit Bonds	$ 750,000
March 2006	Sisters of Mercy Conduit Bonds	5,780,000
October 2006	Springdale Pictoria Public Parking/Infrastructure	10,000,000
	Total 2006	$ 16,530,000

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2007, 2006 and 2005

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Port Authority as of December 31, 2007, 2006, and 2005:

	2007	2006	2005
Assets:			
Current assets – unrestricted	$ 598,979	$ 856,070	$ 782,087
Current assets – restricted	2,019,831	1,547,091	1,144,536
Noncurrent assets:			
Capital assets, net	24,616,204	23,951,439	14,208,163
Other noncurrent assets	6,415,180	3,925,164	1,162,596
Total assets	$ 33,650,194	$ 30,279,764	$ 17,297,382
Liabilities:			
Current liabilities – payable from unrestricted	$ 46,249	$ 42,230	$ 27,044
Current liabilities – payable from restricted	894,271	447,595	381,512
Noncurrent liabilities	31,575,213	28,000,000	18,000,000
Total liabilities	32,515,733	28,489,825	18,408,556
Net assets:			
Invested in capital assets, net of related debt	1,188,002	1,308,472	(1,484,705)
Unrestricted	(53,541)	481,467	373,531
Total net assets	1,134,461	1,789,939	(1,111,174)
Total liabilities and net assets	$ 33,650,194	$ 30,279,764	$ 17,297,382

The following is a discussion of the fluctuations between years in the condensed balance sheets above.

Current assets - unrestricted

Unrestricted current assets decreased $257,000 in 2007 primarily due to project fees decreasing by $152,000 and additional cash requirements for operations.

Current assets - restricted

Restricted current assets increased $473,000 in 2007 due to investments from the $3,798,000 Fairfax Red Bank 2007 public infrastructure financing and an increase in investments for the Springdale Pictoria 2006 public parking/infrastructure financing of $212,000 and $353,000, respectively, offset by a $92,000 decrease in prepaid expense. The $402,000 increase in 2006 represents investments from the $10,000,000 Springdale Pictoria 2006 public parking/infrastructure financing.

Capital assets, net

Net capital assets increased $665,000 in 2007 due to capital additions of $1,585,000 from the Fairfax Red Bank 2007 public infrastructure financing offset by depreciation of $920,000 primarily of assets financed from the Cincinnati Mills 2004 public infrastructure financing and the Springdale Pictoria 2006 public parking/infrastructure financing. The $9,743,000 increase in 2006 resulted from capital additions of $10,143,000 from the Springdale Pictoria 2006 public parking/infrastructure financing.

Other noncurrent assets

In 2007, other noncurrent assets increased $2,490,000 due to the Fairfax Red Bank 2007 public infrastructure financing investments of $1,844,000 and an increase in service payments from the Cincinnati Mills 2004 public infrastructure financing and the Springdale Pictoria 2006 public parking/infrastructure financing totaling $699,000. The 2006 increase of $2,763,000 resulted from the Springdale 2006 public parking/infrastructure financing investments of $1,681,000 and a Cincinnati Mills 2004 public infrastructure funded reserve of $1,490,000, offset by other bond activity.

Current liabilities - payable from unrestricted

There was no significant change from the prior year for this line item in 2007 or 2006.

Current liabilities - payable from restricted

The Springdale Pictoria 2006 public parking/infrastructure financing and the Fairfax Red Bank 2007 public infrastructure financing are the reason for the 2007 increase of $447,000.

Noncurrent liabilities

A portion ($3,798,000) of the Fairfax Red Bank 2007 public infrastructure financing supports assets owned by the Port Authority and is recorded accordingly. The $3,575,000 increase in 2007 represents the purchase price (principal and premium) of that portion of the Fairfax Red Bank 2007 public infrastructure financing received by the Port Authority, less $265,000 classified as current for the principal payment due in 2008 on the Springdale Pictoria bonds. The $10,000,000 increase in 2006 represents the principal amount of the Springdale Pictoria 2006 public parking/infrastructure financing.

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2007, 2006 and 2005

CONDENSED REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION

Provided below is information regarding condensed revenues, expenses, and changes in net assets for the years ended December 31, 2007, 2006, and 2005:

	2007	2006	2005
Operating revenues			
Public funding	$ 350,000	$ 350,000	$ 460,000
Charges for project services	384,680	536,941	224,825
Other income	—	27,862	1,975
Total operating revenues	734,680	914,803	686,800
Operating expenses			
Direct project services	2,955,243	2,324,546	1,902,295
General and administrative	993,032	430,035	720,021
Total operating expenses	3,948,275	2,754,581	2,622,316
Operating loss	(3,213,595)	(1,839,778)	(1,935,516)
Non-operating income			
Grant receipts	1,304,551	3,262,663	2,596,518
Grant expenditures	(1,304,551)	(3,262,663)	(2,596,518)
Bond service payments	2,311,475	4,647,756	—
Investment income	246,642	93,135	61,345
Total non-operating income	2,558,117	4,740,891	61,345
Increase (decrease) in net assets	(655,478)	2,901,113	(1,874,171)
Net assets – beginning of year	1,789,939	(1,111,174)	762,997
Net assets – end of year	$ 1,134,461	$ 1,789,939	$ (1,111,174)

The following is a discussion of the fluctuations between years in the condensed revenues, expenses, and changes in net assets above.

Operating revenues

Operating revenues are segmented into two major categories, public funding and project services. Historically, public funding revenue from the City of Cincinnati, Ohio and Hamilton County, Ohio typically provided the majority of operating revenue. Project services revenue consists of brownfield, financing and other projects pursued by the Port Authority. The primary reason for the $180,000 decrease in 2007 is a decrease in fees from brownfield projects and revenue bond closings of $152,000. The $228,000 increase in 2006 is primarily due to increased activity of project services from brownfield projects and revenue bond closing financing fees of $138,000 and $174,000, respectively, which is offset by a $110,000 decrease in public funding.

Operating expenses

Operating expenses include charges for project services, and compensation and related costs of all staff. Operating expenses increased $1,194,000 in 2007 due to an increase in depreciation and amortization expense and interest expense from bond financings of $530,000 and $438,000, respectively. Salaries and benefits increased $153,000 primarily due to the addition of two staff positions during 2007. In 2006, the addition of greater internal and external resources to meet the needs of increased Port Authority activity caused operating expenses to increase by $132,000.

Operating loss

Operating loss fluctuations between years are described above.

Non-operating revenues and expenses

Non-operating revenues and expenses consist of grant revenues received and subsequently passed-through to third parties, service payments, special assessments, or other revenues assigned by and received from other public bodies to support Port Authority revenue bonds, and certain post-closing bond reserves established for future debt service. In 2007, the decrease of $2,183,000 is due to a decrease in bond service payments of $2,336,000 offset by an increase in investment income of $153,000. The decrease in bond service payments resulted primarily from the decrease in one-time bond-related cash payments received in 2006, as described below.

The increase in 2006 of $4,680,000 is primarily due to the Cincinnati Mills 2004 public infrastructure financing and the Springdale Pictoria 2006 public parking/infrastructure financing payments as follows:

- The Cincinnati Mills Trustee received $910,000 of service payments from the City of Forest Park, Ohio that will be used for future payments of principal and interest. Additionally, the developer elected to close out the bank letter of credit initially used to fund the required bond reserve fund and was therefore required to provide a one-time payment of $1,490,000 directly to the Trustee.

- The Springdale Trustee received a one-time payment of $2,248,000 of service payments from the City of Springdale, Ohio that are derived from the then existing tax increment financing supported by this project.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2007, 2006 and 2005

Changes in net assets

Net assets decreased $655,000 in 2007 primarily due to an increase in depreciation from revenue bond financings of $504,000 and other bond related activity. In 2006, net assets increased $2,901,000 primarily related to the effects of the Springdale Pictoria 2006 public parking/infrastructure financing and the funding of the Cincinnati Mills 2004 public infrastructure financing account with cash to replace the previous letter of credit. Revenues (all non-operating) net of expenses for the Cincinnati Mills transaction for 2007 and 2006 were $454,000 and $1,180,000, respectively. Revenues (all non-operating) net of expenses for the Springdale Pictoria transaction for 2007 and 2006 were $144,000 and $2,123,000, respectively. Expenses (all non-operating) net of revenues for the Red Bank transaction for 2007 were $1,186,000. Other revenues net of expenses decreased net assets in 2007 and 2006 by $67,000 and $402,000, respectively.

Related revenues, net of Port Authority administrative fees, are expected to offset expenses over the life of each issue of Port Authority revenue bonds.

FACTORS EXPECTED TO IMPACT THE PORT AUTHORITY'S FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS

Brownfield project related revenues and expenses are expected to decrease in 2008 due to the completion of some projects. Though the Port Authority earns modest fees from the developers and end users involved in its brownfield projects, it is not anticipated that these fees can support the brownfield-related activities of the Port Authority.

The Port Authority continues to provide bond financings, which generate front-end fees and annual administrative fees based on the outstanding principal balance, including structured financings for which such fees may be significant. There are projects with the potential to close in the next couple of years, including some that may be included in the Port Authority's balance sheet.

The Port Authority will continue to rely on the operations support provided from its public partners – the City of Cincinnati, Ohio and Hamilton County, Ohio.

In 2008, the City of Cincinnati, Ohio and Hamilton County, Ohio are evaluating the Port Authority's request to reform the Port Authority by eliminating certain restrictions that would contribute to a more efficient implementation process and to consider reducing the size of the Board of Directors. As part of this evaluation, the City of Cincinnati, Ohio and Hamilton County, Ohio are considering how to better utilize the tools available to port authorities to further promote economic development within the community.

Financial Statements

Port of Greater Cincinnati Development Authority

Balance Sheets

December 31, 2007 and 2006

		2007		2006
Assets				
Current Assets				
Unrestricted Assets				
Cash	$	566,393	$	802,917
Accounts receivable		32,586		53,153
Total unrestricted current assets		598,979		856,070
Restricted Assets				
Cash and cash equivalents		852,296		287,333
Short-term investments		1,144,535		1,144,535
Prepaid expense		23,000		115,223
Total restricted current assets		2,019,831		1,547,091
Total current assets		2,618,810		2,403,161
Noncurrent Assets				
Cash and cash equivalents, restricted		4,265,960		1,942,733
Investments, restricted		375,135		357,399
Bond issue costs, net		1,774,085		1,625,032
Depreciable capital assets, net		24,616,204		23,951,439
Total noncurrent assets		31,031,384		27,876,603
Total assets	$	33,650,194	$	30,279,764
Liabilities and Net Assets				
Current Liabilities				
Payable from Unrestricted Assets				
Accounts payable	$	37,490	$	37,447
Accrued expenses		8,759		4,783
Total current liabilities payable from unrestricted assets		46,249		42,230
Payable from Restricted Assets				
Bonds payable		265,000		—
Accrued interest		629,271		447,595
Total current liabilities payable from restricted assets		894,271		447,595
Total current liabilities		940,520		489,825
Noncurrent Liabilities				
Payable from Restricted Assets				
Bonds payable		31,575,213		28,000,000
Total liabilities		32,515,733		28,489,825
Net Assets				
Invested in capital assets, net of related debt		1,188,002		1,308,472
Unrestricted net assets (deficit)		(53,541)		481,467
Total net assets		1,134,461		1,789,939
Total liabilities and net assets	$	33,650,194	$	30,279,764

Port of Greater Cincinnati Development Authority

Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended December 31, 2007 and 2006

	2007	2006
Operating Revenues		
Public funding	$ 350,000	$ 350,000
Charges for services	384,680	536,941
Other income	—	27,862
Total operating revenues	734,680	914,803
Operating Expenses		
Salaries and benefits	484,786	332,183
Professional services	408,554	410,445
Occupancy	32,841	31,337
Travel	14,295	9,683
Equipment and supplies	14,610	17,662
Depreciation and amortization	989,727	459,451
Interest	1,648,654	1,210,618
Other operating expenses	354,808	283,202
Total operating expenses	3,948,275	2,754,581
Operating Loss	(3,213,595)	(1,839,778)
Non-operating Income		
Grant receipts	1,304,551	3,262,663
Less grant expenditures	(1,304,551)	(3,262,663)
Bond service payments	2,311,475	4,647,756
Investment income	246,642	93,135
Total non-operating income	2,558,117	4,740,891
(Decrease) Increase in Net Assets	(655,478)	2,901,113
Net Assets, Beginning of Year	1,789,939	(1,111,174)
Net Assets, End of Year	$ 1,134,461	$ 1,789,939

Port of Greater Cincinnati Development Authority

Statements of Cash Flows

Years Ended December 31, 2007 and 2006

	2007	2006
Operating Activities		
Receipts from public funding sources	$ 350,000	$ 350,000
Receipts from charges for services	405,247	488,288
Paid to vendors	(826,030)	(876,643)
Paid to employees	(385,782)	(271,678)
Interest paid on revenue bonds	(1,466,978)	(1,144,535)
Net cash used in operating activities	(1,923,543)	(1,454,568)
Capital and Related Financing Activities		
Bond service payments	2,311,475	4,647,756
Purchase of capital assets	(1,587,825)	(10,168,599)
Proceeds from issuance of long-term debt	3,840,213	10,000,000
Payment of bond issuance costs	(217,560)	(619,000)
Net cash provided by capital and related financing activities	4,346,303	3,860,157
Investing Activities		
Investment income	246,642	93,135
Purchase of investments	(3,055,693)	(1,557,635)
Proceeds from sale and maturities of investments	3,037,957	1,141,186
Net cash provided by (used in) investing activities	228,906	(323,314)
Increase in Cash and Cash Equivalents	2,651,666	2,082,275
Cash and Cash Equivalents, Beginning of Year	3,032,983	950,708
Cash and Cash Equivalents, End of Year	$ 5,684,649	$ 3,032,983
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating loss	$ (3,213,595)	$ (1,839,778)
Adjustments for items not requiring cash for operating activities:		
Depreciation and amortization	989,727	459,451
Loss on disposal of capital assets	1,840	8,366
Changes in assets and liabilities		
Accounts receivable	20,567	(48,653)
Prepaid expenses	92,223	(115,223)
Accounts payable	43	15,365
Accrued expenses	185,652	65,904
Net cash used in operating activities	$ (1,923,543)	$ (1,454,568)

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Port of Greater Cincinnati Development Authority ("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 seeks to identify, restore, and redevelop properties in Hamilton County affected or perceived to be affected by environmental contamination; and to provide development financing through the issuance of revenue bonds.

The Port Authority's management believes these financial statements present all activities for which the Port Authority is financially accountable.

Basis of Accounting and Presentation

The financial statements consist of a single-purpose business-type activity which is reported on the accrual basis of accounting using the economic resources measurement focus.

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 Board (FASB) statements and interpretations issued on or before November 30, 1989, provided these standards do not conflict with or contradict GASB pronouncements. The Port Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

The Port Authority maintains budgetary control by not permitting total expenditures and amounts charged to individual expense categories to exceed respective appropriations without amendment of appropriations by the Board of Directors. Unencumbered appropriations lapse at year-end, but to the extent that unencumbered moneys remain in the General Fund of the Port Authority at year end, an amount equal to 10% of that year's appropriation is appropriated for successive month's expenditures until the next year's appropriation is approved by the Board.

Use of Estimates

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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Port Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2007, cash equivalents consisted primarily of money market accounts with brokers (See Note 2).

Investments and Investment Income

Investments in U.S. Treasury obligations are carried at fair value which is determined using quoted market prices. Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Capital Assets

Capital assets are stated at historical cost and depreciated using the straight-line method 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 that is environmentally contaminated or perceived to be contaminated, is not depreciated until redevelopment is completed. As of January 1, 2007, the Port Authority revised its asset capitalization level for all assets from $1,000 to $2,500. The following estimated useful lives are being used by the Port Authority:

Land improvements	30 – 45 years
Buildings and leasehold improvements	3 – 45 years
Office equipment and furnishings	3 – 7 years

Issue Costs

Bond issue costs are deferred and amortized over the life of the respective bond issue.

Net Assets

Net assets of the Port Authority are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets (deficit) are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets.

Operating Revenues

Operating revenues consist of public funding from the City of Cincinnati, Ohio and Hamilton County, Ohio, and fees from project services. Non-operating revenues consist of grant revenues received by the Port Authority and subsequently passed-through to third parties, including service payments, special assessments, and other revenues collected and assigned by other governmental entities to the Port Authority, and assigned by the Port Authority to a bond trustee to provide revenues to support Port Authority revenue bonds.

Note 2: Deposits, Investments, and Investment Income

Deposits

Moneys in the funds of the Port Authority, except as otherwise described below with respect to investments controlled by the terms of a bond resolution or trust agreement or indenture, and to the extent in excess of current needs, may be invested in accordance with the Ohio Uniform Depository Act, Revised Code Sections 135.01-135.21 ("UDA"). At December 31, 2007, the aggregate amount of moneys in the unrestricted general operating funds of the Port Authority was $576,874, all of which constituted "active deposits," deposited in accordance with UDA. All of that money was, at December 31, 2007, deposited with one qualified banking institution. At December 31, 2007 and 2006, approximately $100,000 of the Port Authority's deposits was covered by FDIC insurance. The remaining bank balances at December 31, 2007 and 2006 of approximately $5,595,000 and $2,937,000, respectively, were collateralized with securities by the pledging institution's trust department or agent, but not in the Port Authority's name. At no time during the two-year period ending December 31, 2007 did the Port Authority have any amounts for investment in the unrestricted general operating funds of the Port Authority not constituting active deposits.

Investments

Investments represent trusted funds securing revenue bonds. Funds held by a corporate trustee on behalf of the Port Authority may be legally invested in accordance with the bond-authorizing resolution of the Port Authority Board of Directors or the trust indenture or agreement securing those revenue bonds.

At December 31, 2007 and 2006, U.S. Bank N.A., the trustee for the Cincinnati Mills 2004 infrastructure project revenue bonds, held investments with a fair value of $1,519,670 and $1,501,934, respectively, all of which were obligations of the U.S. Treasury (in addition to certain amounts held in money market funds comprised solely of such obligations). In 2007, substantially all of those investments were in the trusteed bond reserve fund and the other amounts were primarily held in trusteed revenue fund accounts. In 2006, substantially all of those investments were in the trusteed bond reserve fund. The investments have maturities that correspond to and precede the payments to be made from the proceeds of those investments and are all expected to be held until maturity.

At December 31, 2007 and 2006, U.S. Bank N.A., the trustee for the Springdale Pictoria 2006 public parking/infrastructure revenue bonds, held investments in money market funds with a fair value of $1,640,036 and $1,271,247, respectively, all of which were obligations of the U.S. Treasury. The majority of the funds were held in the bond reserve fund, including the trusteed bond reserve fund, including bond and interest reserve accounts, and in trusteed revenue fund accounts.

At December 31, 2007, U.S. Bank N.A., the trustee for the Fairfax Red Bank 2007 public infrastructure bonds, held investments in money market funds with a fair value of $4,155,636 all of which were obligations of the U.S. Treasury (or money market funds comprised solely of such obligations). A portion ($2,056,624) of such investments is allocated to the assets of the Port Authority financed with those bonds. The balance is allocated to the conduit portion of those bonds and is not treated as an asset of the Port Authority. The majority of those funds were held in the project development account, the bond reserve fund, and the capitalized interest account.

Investment Risks

Interest Rate Risk – The Port Authority's investment policy limits its operating investment portfolio to maturities of less than one year. The specific terms of each bond trust's governing documents determine the length of those investment maturities. At December 31, 2007 and 2006, all Port Authority investments have effective maturity dates of less than one year.

Custodial Credit Risk – Investments of the Port Authority are insured, registered in the name of the government, and/or collateralized with securities by the pledging institution's trust department or agent; therefore, there is no custodial credit risk exposure.

Concentration of Credit Risk – The Port Authority's investments are issued or explicitly guaranteed by the U.S. government and are invested in mutual funds, external investment pools, and other pooled investments; as such, additional information is not required.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2007	2006
Carrying value		
Deposits	$ 566,393	$ 802,917
Investments	6,637,926	3,732,000
	$ 7,204,319	$ 4,534,917
Included in the following balance sheet captions		
Cash	$ 566,393	$ 802,917
Restricted cash and investments - current	1,996,831	1,431,868
Noncurrent cash and investments	4,641,095	2,300,132
	$ 7,204,319	$ 4,534,917

Investment Income

Investment income for the years ended December 31, 2007 and 2006 consisted of:

	2007	2006
Interest income	$ 191,138	$ 67,829
Net increase in fair value of investments	55,504	25,306
	$ 246,642	$ 93,135

Port of Greater Cincinnati Development Authority
Notes to Financial Statements
December 31, 2007 and 2006

Note 3: Capital Assets

Capital assets activity for the years ended December 31, 2007 and 2006 was:

	2007				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements – Cincinnati Mills	$ 4,519,426	$ —	$ —	$ —	$ 4,519,426
Land improvements – Springdale Pictoria	882,619	—	—	—	882,619
Buildings – Cincinnati Mills	10,084,875	—	—	—	10,084,875
Buildings –Springdale Pictoria	9,260,329	—	—	—	9,260,329
Construction in progress – Red Bank	—	1,585,215	—	—	1,585,215
Office equipment	28,443	2,610	(2,760)	—	28,293
Leasehold improvements	9,141	—	—	—	9,141
	24,784,833	1,587,825	(2,760)	—	26,369,898
Less accumulated depreciation:					
Land improvements – Cincinnati Mills	(275,918)	(152,040)	—	—	(427,958)
Land improvements – Springdale Pictoria	(7,612)	(36,459)	—	—	(44,071)
Buildings – Cincinnati Mills	(485,576)	(342,832)	—	—	(828,408)
Buildings –Springdale Pictoria	(51,853)	(383,687)	—	—	(435,540)
Office equipment	(10,911)	(3,155)	920	—	(13,146)
Leasehold improvements	(1,524)	(3,047)	—	—	(4,571)
	(833,394)	(921,220)	920	—	(1,753,694)
Capital Assets, Net	$23,951,439	$ 666,605	$ (1,840)	$ —	$24,616,204

	2006				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements – Cincinnati Mills	$ 4,519,426	$ —	$ —	$ —	$ 4,519,426
Land improvements – Springdale Pictoria	—	882,619	—	—	882,619
Buildings – Cincinnati Mills	10,084,875	—	—	—	10,084,875
Buildings – Springdale Pictoria	—	9,260,329	—	—	9,260,329
Office equipment	35,222	16,510	(23,289)	—	28,443
Leasehold improvements	10,188	9,141	(10,188)	—	9,141
	14,649,711	10,168,599	(33,477)	—	24,784,833
Less accumulated depreciation:					
Land improvements – Cincinnati Mills	(148,571)	(127,347)	—	—	(275,918)
Land improvements – Springdale Pictoria	—	(7,612)	—	—	(7,612)
Buildings – Cincinnati Mills	(261,464)	(224,112)	—	—	(485,576)
Buildings – Springdale Pictoria	—	(51,853)	—	—	(51,853)
Office equipment	(21,325)	(4,509)	14,923	—	(10,911)
Leasehold improvements	(10,188)	(1,524)	10,188	—	(1,524)
	(441,548)	(416,957)	25,111	—	(833,394)
Capital Assets, Net	$14,208,163	$ 9,751,642	$ (8,366)	$ —	$23,951,439

Note 4: Bonds Payable

Cincinnati Mills Public Infrastructure

In February 2004, the Port Authority issued an aggregate of $18 million of Special Obligation Development Revenue Bonds for the purpose of financing, in cooperation with the cities of Forest Park and Fairfield, costs of the development of public infrastructure improvements to support the redevelopment of the Cincinnati Mills Mall. The bonds consist of $7,465,000 principal amount of term bonds maturing on February 15, 2024 and $10,535,000 principal amount of term bonds maturing on February 15, 2034. The assets acquired, improved, constructed, or otherwise developed by the Port Authority with the proceeds of the bonds include a public parking garage and other parking facilities, two stormwater detention ponds, and public roadways supporting the mall. Cincinnati Mills, L.L.C., an affiliate of the Mills Corporation, manages those facilities for the Port Authority. The management agreement has an initial term ending on February 15, 2019 and requires that the manager pay related costs, including taxes, insurance and costs of operation, maintenance, and repair.

The bonds were issued pursuant to a cooperative agreement with the cities in which the mall is located. The bonds are payable from service payments to be made by the owners of mall properties to those cities, which have assigned those payments to the Port Authority. The Port Authority has, in turn, assigned those payments to U.S. Bank N.A., the bond trustee under the trust indenture securing the bonds. In addition, upon petition by the mall owner, the cities imposed special assessments on the mall property, to be collected in the event that there is any anticipated shortfall in service payments.

The mall owners have acknowledged that the obligations to pay service payments and any special assessments are secured by a statutory tax lien or its equivalent and run with the land. Under the trust indenture, a debt service reserve, in an initial amount of $1,489,600, is maintained with the bond trustee. That reserve was funded (at December 31, 2007 and 2006) by a deposit invested by the bond trustee in a forward delivery agreement with SunTrust Bank. The bonds are special limited obligations of the Port Authority payable only from the funds established with and revenues assigned to the bond trustee under the trust indenture, primarily the revenues assigned by the cities to the Port Authority under the cooperative agreement and treated as non-operating revenues of the Port Authority. The bondholders have no recourse to any other revenues or assets of the Port Authority.

Interest is payable semi-annually at 6.30% and 6.40% for the 2024 and 2034 term bonds, respectively.

The debt service requirements as of December 31, 2007, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2008	$ 1,144,535	$ —	$ 1,144,535
2009	1,410,873	275,000	1,135,873
2010	1,412,918	295,000	1,117,918
2011	1,413,703	315,000	1,098,703
2012	1,413,228	335,000	1,078,228
2013 – 2017	7,069,558	2,035,000	5,034,558
2018 – 2022	7,083,243	2,805,000	4,278,243
2023 – 2027	7,114,773	3,885,000	3,229,773
2028 – 2032	7,124,160	5,360,000	1,764,160
2033 – 2034	2,870,840	2,695,000	175,840
	$ 38,057,831	$ 18,000,000	$ 20,057,831

Springdale Pictoria Public Parking/Infrastructure

In October 2006, the Port Authority issued an aggregate of $10 million of Special Obligation Development Revenue Bonds for the purpose of financing, in cooperation with the City of Springdale, costs of the acquisition and development of public parking facilities to support the development of the Pictoria Corporate Center. The bonds consist of term bonds maturing on February 1, 2031. The assets acquired, improved, constructed or otherwise developed by the Port Authority with the proceeds of the bonds include a 1,132-space public parking garage serving the general public and located at a mixed-use commercial development (including office, restaurant, cinema, and distribution facilities).

In addition, utilizing a grant provided by the City of Springdale from service payments collected and available for that purpose, the Port Authority acquired certain road improvements located near an entrance to the parking garage at the terminus of one of the public roads constructed by the City of Springdale in support of the development. The Port Authority has entered into a management agreement with MEPT Pictoria, LLC to manage the public facilities for the Port Authority. The management agreement has an initial term ending on October 25, 2021 and requires that the manager pay all related costs, including taxes, insurance, and costs of operation, maintenance, and repair.

The bonds were issued pursuant to a cooperative agreement with the City of Springdale and are payable from service payments to be made by the owners of property included in Phase II of the proposed three-phase development to the City of Springdale, which has assigned those payments to the Port Authority. The Port Authority has, in turn, assigned those payments to U.S. Bank N.A., the bond trustee under the trust indenture securing the bonds. Upon petition by the owners of that Phase II property, the City of Springdale imposed special assessments on that property, to be collected if and to the extent that service payments are anticipated to be insufficient.

The Phase II property owners have acknowledged that the obligations to pay service payments and any special assessments are secured by a statutory tax lien or its equivalent and run with the land. Under the trust indenture, two reserve funds, in an aggregate initial amount of $890,000, are to be maintained with the bond trustee for the periods required by the trust indenture. Those reserves were funded initially from bond proceeds or equity provided by the City of Springdale from service payments collected and available for that purpose and were, at December 31, 2007 and 2006, invested in money market funds comprised of U.S. Treasury obligations managed by the bond trustee. The bonds are special limited obligations of the Port Authority payable only from the funds established with and revenues assigned to the bond trustee, primarily the revenues assigned by the City of Springdale to the Port Authority under the cooperative agreement and treated as non-operating revenues of the Port Authority. The bondholders have no recourse to any other revenues or assets of the Port Authority.

Interest is payable semi-annually at variable interest rates currently reset annually and with conversion options permitting the interest rate to be reset weekly or fixed to maturity. Until the interest rate on the bonds is fixed to maturity, bondholders have certain rights to tender bonds for purchase, as provided by the trust indenture. At issuance and as of December 31, 2007, RBC Capital Markets (formerly Seasongood & Mayer, LLC) is the remarketing agent for the bonds, and credit and liquidity support are provided for the bonds pursuant to a U.S. Bank N.A. Irrevocable Letter of Credit dated October 25, 2006, stated to expire on October 25, 2009, but extended one year annually thereafter if not terminated by the Bank at least 270 days before October 25, 2009 or any subsequent anniversary of that date. Obligations under the reimbursement agreement providing for that letter of credit are payable only from the trust estate established under the Indenture.

At December 31, 2007, the interest rate on the bonds was 3.80% per year through January 31, 2008. At December 31, 2006, the interest rate on the bonds was 3.65% per year through January 31, 2007. Bank, remarketing and other fees amount to an additional 1.40% per year. Assuming a constant interest rate of 3.80% per year to the maturity of the bonds, debt service as of December 31, 2007, is estimated as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2008	$ 639,965	$ 265,000	$ 374,965
2009	639,705	275,000	364,705
2010	639,065	285,000	354,065
2011	638,045	295,000	343,045
2012	636,645	305,000	331,645
2013 – 2017	3,186,075	1,715,000	1,471,075
2018 – 2022	3,169,255	2,055,000	1,114,255
2023 – 2027	3,159,665	2,475,000	684,665
2028 – 2031	2,511,260	2,330,000	181,260
	$ 15,219,680	$ 10,000,000	$ 5,219,680

At February 1, 2008, the interest rate was reset to 2.25% per year. If the 2.25% rate remained constant for the life of the bonds, it would reduce the aggregate interest amount of $5,219,680 above to approximately $3,168,000.

Fairfax Red Bank Public Infrastructure

In May 2007, the Port Authority issued $7,675,000 principal amount of special obligation development revenue bonds for the purpose of financing costs of the acquisition, construction, installation, equipping, improvement, and development, in cooperation with the Village of Fairfax, Ohio, of public infrastructure improvements. The bonds consist of $2,145,000 principal amount of term bonds maturing on February 1, 2025 and $5,530,000 principal amount of term bonds maturing on February 1, 2036. The improvements financed include road and street improvements, public utility (water, sanitary sewer, and storm water control facilities), and public safety improvements, in support of a mixed-use commercial development generally known as Red Bank Village. Revenues to support the payment of the bonds consist primarily of service payments to be made in lieu of certain exempted taxes assigned by the Village to the Port Authority under a cooperative agreement and assigned by the Port Authority to the bond trustee.

The bonds were issued pursuant to a cooperative agreement with the Village of Fairfax, Ohio in which the development is located, the developer and the then-current owner of certain benefited property. The bonds are payable from service payments, supported by minimum service payment obligations, to be made to the Village of Fairfax by the owners of the benefited property, and the Village of Fairfax has assigned those payments to the Port Authority. The Port Authority has, in turn, assigned those payments to U.S. Bank National Association, the bond trustee under the trust indenture securing the bonds. The owners have acknowledged that the obligations to pay service payments, and the minimum service payment obligations, are secured by a statutory tax lien or its equivalent and run with the land.

Under the trust indenture, a debt service reserve, in an initial amount of $738,271, is maintained with the bond trustee. That reserve was funded (at December 31, 2007) from the proceeds of the sale of the bonds. The bonds are special limited obligations of the Port Authority payable only from the funds established with and revenues assigned to the bond trustee under the trust indenture, primarily the revenues assigned by the Village of Fairfax to the Port Authority under the cooperative agreement. The bondholders have no recourse to any other revenues or assets of the Port Authority.

Interest is payable semi-annually at 5.50% and 5.625% for the 2025 and 2036 term bonds, respectively.

Because of the nature and location of certain of the improvements financed, those improvements are or are expected to be owned by the Village of Fairfax or other political subdivisions pursuant to cooperative agreements ("Red Bank Non-Port Infrastructure"). The portion of the revenue bonds issued to finance Red Bank Non-Port Infrastructure ($3,876,642 principal amount) and related revenues, expenses, assets and liabilities, are treated as a separate issue of conduit revenue bonds issued by the Port Authority ("Red Bank Conduit Bonds"). The remaining improvements financed will be owned by the Port Authority ("Red Bank Port Infrastructure") and to the extent issued to finance Red Bank Port Infrastructure ($3,798,358 principal amount), those bonds ("Red Bank Infrastructure Bonds"), and related revenues, expenses, assets and liabilities, are treated as a separate issue of infrastructure development revenue bonds issued to finance assets of the Port Authority. The debt service requirements for the Red Bank Infrastructure Bonds, as of December 31, 2007, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2008	$ 212,331	$ —	$ 212,331
2009	212,331	—	212,331
2010	212,331	—	212,331
2011	241,208	29,694	211,514
2012	241,982	32,169	209,813
2013 – 2017	1,255,203	240,027	1,015,176
2018 – 2022	1,330,601	403,344	927,257
2023 – 2027	1,436,781	653,268	783,513
2028 – 2032	1,542,534	972,479	570,055
2033 – 2036	1,795,380	1,467,377	328,003
	$ 8,480,682	$ 3,798,358	$ 4,682,324

Note 5: Public Funding

For the years ended December 31, 2007 and 2006, public funding for the Port Authority came from the following sources:

	2007	2006
Hamilton County, Ohio	$ —	$ 350,000
City of Cincinnati, Ohio	350,000	—
	$ 350,000	$ 350,000

The Port Authority is dependent upon these public sources of funding for continued operations. The Port Authority expects to receive at least $875,000 from the City and County in 2008.

Note 6: Operating Leases

As of December 31, 2007, noncancellable operating leases for office space and equipment expire in various years through 2012. The office lease contains semi-annual renewal options expiring June 30, 2009 and termination options with six months notice. In June 2008, the Port Authority modified the lease agreement to expand the office space and extend the lease expiration date to June 30, 2014 with two three-year renewal options.

Future minimum lease payments are:

2008	$ 44,047
2009	51,854
2010	53,732
2011	55,690
2012	54,553
Thereafter	83,170
	$ 343,046

Note 7: Retirement and Post-employment Benefit Plan

Pension Benefits **–** All full time employees are required to join the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit plan.
2. The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

3. The Combined Plan – a cost-sharing, multi-employer defined benefit plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which are self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor, and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report, copies of which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642; or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans. Contribution rates for calendar year 2007 amounted to 9.5% for the employee share and 13.85% for the employer share. Employer contributions required amounted to $53,431 and $37,220 for 2007 and 2006, respectively, which equaled 100% of the required contributions for each year.

Post-employment Benefits – OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employers to fund post-retirement health care through their contributions to OPERS. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2007, local employer units contributed at 13.85% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code Section 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries.

Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the employer contributions that was made to fund health care benefits is $4,984 for the year ended December 31, 2007. Of that amount, approximately $2,000 was used for post-employment benefits.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, and were scheduled to increase as of January 1, 2008, which allowed additional funds to be allocated to the health care plan.

Note 8: 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' Compensation 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 reserves.

Settled claims have not exceeded the Port Authority's commercial insurance coverage for any of the past two years; there have been no claims.

Note 9: Conduit Revenue Bond Obligations

The Port Authority has outstanding aggregate conduit revenue bond obligations of approximately $108,040,000 and $105,025,000 at December 31, 2007 and 2006, respectively. Conduit revenue bond obligations are not recorded on the Port Authority's financial statements because it owns no assets and has no obligations thereon.

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 a public 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 any moneys deposited in the trusteed funds, 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.

Principal of the Bonds is payable as follows only from the funds pledged to secure the Bonds:

2008	$ 165,000
2009	170,000
2010	180,000
2011	185,000
2012	190,000
Thereafter	2,485,000
	$ 3,375,000

In January 2006, the Port Authority issued $750,000 of Variable Rate Demand Revenue Bonds, Series 2005 (the Bonds) for the purpose of making a loan to assist the Cincinnati Zoo to complete a project previously financed in November 2003. Repayment of the Bonds is secured by a letter of credit procured by the borrower and issued to the Bond trustee.

Principal of the Bonds is payable as follows only from the funds pledged to secure the Bonds:

2008	$ 40,000
2009	40,000
2010	40,000
2011	40,000
2012	40,000
Thereafter	470,000
	$ 670,000

National Underground Railroad Freedom Center Project

In April 2003, the Port Authority issued $50 million of Adjustable Rate Demand Revenue Bonds, Series 2003A (the Bonds) to provide funds to lend to the National Underground Railroad Freedom Center, Inc., which was 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 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 2034 through 2038 only from the funds pledged to secure the Bonds.

Queen City Square Project

In June 2004, the Port Authority issued a $10 million Taxable Special Obligation Development TIF Revenue Bond and a $35 million Taxable Special Obligation Development Lease Revenue Bond for the purpose of financing costs of constructing an office building and parking garage included in the first phase of the Queen City Square redevelopment in downtown Cincinnati. The assets financed were completed in the first half of 2006 by an affiliate of Western Southern Life Insurance Company ("Western Southern") for lease to a separate affiliate of Western Southern pursuant to a triple-net capital lease ("Lease"). The bonds were purchased for investment by another affiliate of Western Southern.

The "lease bond" is payable solely from rent and other payments to be made to the Port Authority under the Lease, and the Port Authority has assigned those payments to the holder of the lease bond. The "TIF bond" is payable solely from service payments to be made by the owner of the assets financed in lieu of certain real estate taxes exempted by the City of Cincinnati. The obligation of the owner to pay service payments in lieu of taxes is secured by a statutory tax lien. The owner is further obligated contractually to pay minimum service payments sufficient to pay the principal of and interest on the TIF bond. Those service payments have been assigned by the City of Cincinnati to the Port Authority which has, in turn, assigned those payments to The Bank of New York Trust Company, N.A., the TIF bond trustee. Pursuant to the Lease, the lessee is required to pay all such service payments.

The bonds are special limited obligations of the Port Authority, and the principal and interest and any premium on the 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 or by the pledge of any general revenues of the Port Authority raised by taxation or otherwise, and do not constitute a debt or pledge of faith and the credit of the Port Authority or the State of Ohio or any political subdivision or agency of instrumentality thereof.

Principal of the TIF bond and the Lease bond are payable as follows only from the funds pledged to secure the respective bonds:

TIF Bond	
2008	$ —
2009	148,623
2010	158,824
2011	169,726
2012	181,376
Thereafter	9,341,451
	$ 10,000,000
Lease Bond	
2008	$ 704,989
2009	751,558
2010	801,203
2011	851,127
2012	910,548
Thereafter	30,319,270
	$ 34,338,695

Sisters of Mercy of the Americas, Regional Community of Cincinnati Project

In March 2006, the Port Authority issued $5,780,000 principal amount of port authority revenue bonds constituting conduit revenue bond obligations, and loaned the proceeds of sale to Sisters of Mercy of the Americas, Regional Community of Cincinnati, an Ohio non-profit corporation ("Sisters"), to finance a project to promote economic development, education, housing, and culture in Cincinnati. Repayment of the loan and bonds is secured by joint and several obligations of Sisters and certain affiliated institutions providing secondary education of young women, including McAuley High School and Mother of Mercy High School in Cincinnati, Ohio.

The Bonds are payable beginning in 2019 only from the funds pledged to secure the Bonds.

Note 10: Subsequent Events

Kenwood Towne Place Project

In January 2008, the Port Authority issued $14,315,000 principal amount of special obligation development revenue bonds and $6,115,000 of taxable special obligation development revenue bonds for the purpose of financing costs of the acquisition, construction, installation, equipping, improvement, and development, in cooperation with Sycamore Township, Ohio, of public infrastructure improvements. The improvements financed include an approximately 2,500 space public parking garage and related infrastructure improvements, in support of a mixed-use commercial development generally known as Kenwood Towne Place and other neighboring properties including the Kenwood Town Center Mall. Revenues to support the payment of the bonds consist primarily of service payments to be made in lieu of certain exempted taxes assigned by Sycamore Township to the Port Authority under a cooperative agreement and assigned by the Port Authority to the bond trustee. Bear Creek Capital, LLC manages those facilities for the Port Authority. The management agreement has an initial term ending on January 1, 2023 and requires that the manager pay related costs, including taxes, insurance, and costs of operation, maintenance, and repair.

BKD LLP

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed 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 as of and for the year ended December 31, 2007, and have issued our report thereon dated July 25, 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 the Organization'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 the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of control deficiencies, that adversely affects the Organization'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 Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or a 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 Organization'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 the Organization'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*.

We noted certain matters that we reported to the Organization's management in a separate letter dated July 25, 2008.

This report is intended solely for the information and use of the governing body, management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

July 25, 2008

Mary Taylor, CPA
Auditor of State

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
NOVEMBER 6, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us