Port of Greater Cincinnati Development Authority

Accountants' Report and Financial Statements

December 31, 2004 and 2003

Auditor of State
Betty Montgomery

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

We have reviewed the *Independent Accountants' Report on Financial Statements and Supplementary Information* of the Port of Greater Cincinnati Development Authority, Hamilton County, prepared by BKD, LLP, for the audit period January 1, 2004 through December 31, 2004. 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

April 20, 2006

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Port of Greater Cincinnati Development Authority

December 31, 2004 and 2003

Contents

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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, 2004 and 2003 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.

As described in Note 2 the Port of Greater Cincinnati Development Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments,* as amended and interpreted, as of December 31, 2004.

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, 2004 and 2003, and the changes in its financial position 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 August 3, 2005, 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 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 or 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

August 3, 2005

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2004

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 year ended December 31, 2004. Please read this information in conjunction with the Port Authority's basic financial statements and footnotes that begin on page 10.

In December of 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 sites. The newly created Port Authority was given a dual mission of overseeing The Banks Central Riverfront Project envisioned by the City, the County, and the Riverfront Advisors Commission, as well as continuing the brownfield redevelopment activities of our predecessor agency.

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.

During 2004, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2004

In addition, the Port Authority undertook and completed two signature structured economic development financing transactions: a tax increment and special assessment infrastructure financing at what is now the Cincinnati Mills Mall ("Cincinnati Mills") and a tax increment structured lease financing for the first Downtown Cincinnati office building in more than a decade (the first phase of "Queen City Square").

By the end of 2004, the Port Authority hired its first Director of Economic Inclusion to spearhead its effort to foster a new more inclusive approach to economic development in Greater Cincinnati.

Special Financings, Projects and Programs

As 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.

Revenue Bonds: Port authorities may provide conduit financing in the form of revenue bonds. These bonds are based on the credit worthiness of the borrower and backed by a letter of credit from a financial institution. The proceeds of the revenue bonds may be used for public facilities or properties to be owned by the port authority.

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

Grant Programs: Ohio's 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 access to the Ohio Enterprise Bond Fund Program, which has not been accessed through 2004.

Lease Financing Projects: This involves the ownership and leasing of a project to provide financial and accounting advantages to corporate 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.

Property Ownership: Port authorities may own and improve property if doing so helps to create 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 lease real property or improved property as well.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2004

Project Coordination: Port authorities can facilitate and coordinate the various regulatory approvals needed from multiple agencies or jurisdictions particularly for brownfield projects. As a result, the development process is streamlined, and projects can move forward more quickly and efficiently.

2004 PROJECT SUMMARY

This discussion and analysis is intended to serve as an introduction to the Port Authority's basic financial statements. Port Authority activities include The Banks and Brownfield-related project activities, as well as project financings. For detail information regarding these activities, please visit the Port Authority's web site at www.cincinnatiport.org. A summary of grant funds and environmental cleanups/assessments completed or those underway is reflected below. The amounts shown represent total grant values that may be drawn over multiple calendar years. Further, grant funds are received by the Port Authority on a request for reimbursement basis then passed through to the developer/project manager/subcontractor. Additionally, bond financings are reflected below.

Summary of Grant Funds – The Banks

Project Name	Funding Source	Amount of Funds
Banks Intermodal Facility	CMAQ Funds	$ 10,400,000
Banks Intermodal Facility	TRAC Funds	$ 11,000,000
Banks Intermodal Facility	FTA Funds	$ 3,500,000
Freedom Way Improvement Project	EDA Funds	$ 2,000,000
Total		$ 26,900,000

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2004

Summary of Grant Funds – Brownfield Projects

Project Name	Clean Ohio Funds
Cleanups/Assessments Completed During 2004	
3603 East Kemper Road, Sharonville, Ohio (CORF)	$ 1,500,000
5700 Center Hill Road, Cincinnati, Ohio (COAF)	349,500
3333 Vine Street, Cincinnati, Ohio (COAF)	496,151
400 Pike Street, Cincinnati, Ohio (COAF)	845,500
Subtotal	3,191,151
Additional 2004 Grant Award*	
4000 Red Bank Road, Fairfax, Ohio (CORF)	3,000,000
Pending 2004 Grant Request**	
5025 Carthage Avenue, Norwood, Ohio (COAF)	750,000
Total	$ 6,941,151

* Project mobilization occurred in December 2004.
** This grant was awarded during the first quarter of 2005.

Summary of Bond Financings

April 2003	National Underground Railroad Freedom Center	$ 50,000,000
November 2003	Cincinnati Zoo and Botanical Gardens	4,000,000
February 2004	Cincinnati Mills	18,000,000
June 2004	303 Broadway at Queen City Square	45,000,000
	Total	$ 117,000,000

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2004

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Port Authority as of December 31, 2004 and 2003:

	2004	2003	Increase/ (Decrease)
Assets:			
Current assets – unrestricted	$ 1,399,038	$ 542,615	$ 856,423
Current assets – restricted	1,144,536	—	1,144,536
Noncurrent assets:			
Capital assets, net	14,563,226	24,441	14,538,785
Other noncurrent assets	2,352,111	374,887	1,977,224
Total assets	$ 19,458,911	$ 941,943	$ 18,516,968
Liabilities:			
Current liabilities – payable from unrestricted	$ 314,403	$ 135,543	$ 178,860
Current liabilities – payable from restricted	381,511	—	381,511
Noncurrent liabilities	18,000,000	—	18,000,000
Total liabilities	18,695,914	135,543	18,560,371
Net assets:			
Invested in capital assets, net of related debt	59,873	24,441	35,432
Unrestricted	703,124	781,959	(78,835)
Total net assets	762,997	806,400	(43,403)
Total liabilities and net assets	$ 19,458,911	$ 941,943	$ 18,516,968

2004 to 2003 Comparative Balance Sheets

Current assets-unrestricted

The $856,423 increase in unrestricted current assets is primarily due to an increase in land value resulting from capitalization of remediation expenditures at the East Kemper Road site and its reclassification from noncurrent in the previous year of $407,794 and $374,887, respectively.

Current assets - restricted

The $1,144,536 increase in restricted current assets represents trust funds pledged solely to the Cincinnati Mills revenue bond financing.

Capital assets

The $14,538,785 increase in capital assets is primarily due to the Cincinnati Mills revenue bond financing.

Other noncurrent assets

The $1,977,224 increase in other noncurrent assets consists of trust funds pledged solely to the Cincinnati Mills revenue bond financing of $2,352,111 net of the reclassification of the East Kemper Road land to unrestricted current assets of $374,887.

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2004

Current liabilities-payable from unrestricted

The $178,860 increase in current liabilities is due to the timing of vendor invoices received for professional services.

Current liabilities-payable from restricted

The $381,511 increase in restricted current liabilities represents the Cincinnati Mills revenue bond financing.

Noncurrent liabilities

This category represents the $18,000,000 principal amount of Cincinnati Mills revenue bonds issued.

CONDENSED REVENUE, EXPENSE AND CHANGES IN NET ASSETS INFORMATION

The Port Authority decreased its net assets by $43,403 in 2004. Key elements of these changes are summarized below:

	2004	2003	Increase/ (Decrease)
Operating revenues			
Public funding	$ 700,000	$ 626,665	$ 73,335
Charges for project services	402,742	188,565	214,177
Other income	3,989	380	3,609
Total operating revenues	1,106,731	815,610	291,121
Operating expenses			
Direct project services	801,916	142,940	658,976
General and administrative	619,179	634,836	(15,657)
Total operating expenses	1,421,095	777,776	643,319
Operating income (loss)	(314,364)	37,834	(352,198)
Non-operating revenues (expenses)			
Grant receipts	1,003,556	—	1,003,556
Grant expenditures	(678,427)	—	(678,427)
Investment income (loss)	(54,168)	3,589	(57,757)
Total non-operating revenues (expenses), net	270,961	3,589	267,372
Increase (Decrease) in net assets	(43,403)	41,423	(84,826)
Net assets – beginning of year	806,400	764,977	41,423
Net assets – end of year	$ 762,997	$ 806,400	$ (43,403)

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2004

Change in net assets from 2003 to 2004

A summary of reasons for the decrease in net assets of $85,000 follows:

	Increase (Decrease) in Net Assets
Increase in project services	$ 214,000
Increase in public funding	73,000
Capitalization of East Kemper Road land	408,000
Cincinnati Mills revenue bond financing	(339,000)
Professional services, primarily The Banks	(277,000)
Other revenues and expenses, net	(79,000)
Decrease in net assets	$ (85,000)

Operating revenues

Operating revenues are segmented into two major categories, public funding and project services. Public funding revenue provides the majority of operating revenue. Project services revenue stems from all projects pursued by the Port Authority. Operating revenues increased by $291,121 (35.7%) from $815,610 in 2003 to $1,106,731 in 2004. The increase is due to an increase in fees for project services of $214,177 and an increase in public funding of $73,335.

Operating expenses

The operating expenses include charges for project services and compensation and related costs of all staff. Operating expenses increased $643,319 (82.0%) from the prior year. The composition of certain categories changed as follows:

- A $47,043 (14.3%) increase in salaries and benefits primarily resulted from the addition of two positions during 2004 (Director of Finance and Director of Economic Inclusion).
- The $276,729 increase in professional services is primarily due to activity on The Banks project.
- Depreciation and amortization increased $92,513 primarily due to the Cincinnati Mills revenue bond financing.
- Interest increased $190,756 as a result of the Cincinnati Mills revenue bond financing.
- The remaining operating expenses, net increased $36,563 primarily as the result of bad debt expense incurred on an uncollectible account receivable from a non-profit organization without sufficient funding.

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2004

Operating income (loss)

Operating income decreased $352,198 in 2004 as compared to 2003. The reasons for the decrease are explained above.

Non-operating revenues and expenses

Non-operating revenues and expenses consist of grant revenues received and subsequently passed-through to third parties. Net non-operating activities increased $267,372 from the prior year. The increase primarily resulted from the capitalization of $407,794 in land improvements on the East Kemper Road project. The change in investment income (loss) represents an adjustment of investments to fair value of ($55,593).

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

The Port Authority does not anticipate further revenues and expense related to the Banks development, however this may be subject to change.

Brownfield project related revenues and expenses are expected to remain relatively unchanged in 2005. The Port Authority will continue work on the 3603 East Kemper Road, 5700 Center Hill Road, 3333 Vine Street, and 400 Pike Street projects. It is anticipated that these projects will be completed and closed out in 2005. The 4000 Red Bank Road project will be completed during the last quarter of 2005, while the 5025 Carthage Avenue project will begin during that same quarter. The Port Authority plans to submit a grant application for the cleanup and redevelopment of the former Celotex site. The State of Ohio will make its funding decision in December 2005. In addition, there are other brownfield redevelopment projects in the "pipeline." 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 will continue to rely on the operations support provided by its public partners – the City of Cincinnati, Ohio and Hamilton County, Ohio.

During 2003, the Port Authority cultivated several potential financing projects into its "pipeline." Two of the potential financings are expected to close during the fourth quarter of 2005. However, these financings are subject to the approvals of other governmental entities and resolution of brownfield contamination issues. Therefore, there is potential for these projects to move into the first quarter of 2006. The estimated amount of these two financings is $20 million. There are two additional financings that are in the "pipeline" that are not expected to close until the second half of 2006. The dollar amount of these financings cannot be estimated at this time.

Financial Statements

Port of Greater Cincinnati Development Authority

Balance Sheets

December 31, 2004 and 2003

	2004	2003
Assets		
Current Assets		
Unrestricted Assets		
Cash	$ 603,857	$ 434,885
Accounts receivable	12,500	102,717
Prepaid expenses	—	5,013
Property held for redevelopment	782,681	—
Total unrestricted current assets	1,399,038	542,615
Restricted Assets		
Cash and cash equivalents	45,921	—
Short-term investments	1,098,615	—
Total restricted current assets	1,144,536	—
Total current assets	2,543,574	542,615
Noncurrent Assets		
Cash and cash equivalents, restricted	183,688	—
Investments, restricted	1,082,561	—
Bond issue costs, net	1,085,862	—
Depreciable capital assets, net	14,563,226	24,441
Property held for redevelopment	—	374,887
Total noncurrent assets	16,915,337	399,328
Total assets	$ 19,458,911	$ 941,943
Liabilities and Net Assets		
Current Liabilities		
Payable from Unrestricted Assets		
Accounts payable	$ 309,298	$ 65,538
Accrued expenses	5,105	60,005
Refundable deposit	—	10,000
Total current liabilities payable from unrestricted assets	314,403	135,543
Payable from Restricted Assets		
Accrued interest	381,511	—
Total current liabilities	695,914	135,543
Noncurrent liabilities		
Payable from Restricted Assets		
Bond payable	18,000,000	—
Total liabilities	18,695,914	135,543
Net Assets		
Invested in capital assets, net of related debt	59,873	24,441
Unrestricted net assets	703,124	781,959
Total net assets	762,997	806,400
Total liabilities and net assets	$ 19,458,911	$ 941,943

Port of Greater Cincinnati Development Authority

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2004 and 2003

	2004	2003
Operating Revenues		
Public funding	$ 700,000	$ 626,665
Charges for services	402,742	188,565
Other income	3,989	380
Total operating revenues	1,106,731	815,610
Operating Expenses		
Salaries and benefits	375,959	328,916
Professional services	590,571	313,842
Occupancy	28,253	27,254
Travel	8,434	7,194
Equipment and supplies	13,264	15,788
Depreciation and amortization	101,359	8,846
Interest	190,756	—
Other operating expenses	112,499	75,936
Total operating expenses	1,421,095	777,776
Operating Income (Loss)	(314,364)	37,834
Non-operating Income (Loss)		
Grant receipts	1,003,556	—
Less grant expenditures	(678,427)	—
Investment income (loss)	(54,168)	3,589
Total non-operating income	270,961	3,589
Increase (Decrease) in Net Assets	(43,403)	41,423
Net Assets, Beginning of Year	806,400	764,977
Net Assets, End of Year	$ 762,997	$ 806,400

Port of Greater Cincinnati Development Authority

Statements of Cash Flows

Years Ended December 31, 2004 and 2003

	2004	2003
Operating Activities		
Receipts from public funding sources	$ 722,470	$ 725,165
Receipts from charges for services	452,458	20,829
Receipts from other sources	22,020	9,051
Paid to vendors	(548,088)	(543,391)
Paid to employees	(311,382)	(265,316)
Net cash provided by (used in) operating activities	337,478	(53,662)
Capital and Related Financing Activities		
Purchase of capital assets	(14,044,602)	(6,071)
Proceeds from issuance of long-term debt	18,000,000	—
Payment of bond issuance costs	(1,120,087)	—
Interest paid on long-term debt	(616,777)	—
Net cash provided by (used in) capital and related financing activities	2,218,534	(6,071)
Investing Activities		
Interest on investments	247,641	3,589
Purchase of investments	(2,236,770)	—
Acquisition of property held for redevelopment	(168,302)	—
Net cash (used in) provided by investing activities	(2,157,431)	3,589
Increase (Decrease) in Cash and Cash Equivalents	398,581	(56,144)
Cash and Cash Equivalents, Beginning of Year	434,885	491,029
Cash and Cash Equivalents, End of Year	$ 833,466	$ 434,885
Reconciliation of Operating Income to Net Cash (Used in) Provided by Operating Activities		
Operating income (loss)	$ (314,364)	$ 37,834
Adjustments for items not requiring cash for operating activities:		
Depreciation and amortization	101,359	8,846
Bad debt expense	55,316	—
Changes in Assets and Liabilities		
Accounts receivable	(90,217)	(60,283)
Prepaid expenses	5,013	2,699
Accounts payable	243,760	(11,780)
Accrued expenses	326,611	(30,978)
Refundable deposits	10,000	—
Net cash provided by (used in) operating activities	$ 337,478	$ (53,662)

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2004 and 2003

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

Nature of Operations and Reporting 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 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 this financial statement presents 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 (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 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. All unencumbered appropriations lapse at year-end.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, 2004, cash equivalents consisted primarily of money market accounts with brokers, see Note 3, Investments.

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 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, and is not depreciated until redevelopment is completed. 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

The Port Authority capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2004
Total interest expense incurred on borrowings for project	$ 807,533
Interest income from investment of proceeds of borrowings for project	(246,216)
Net interest cost capitalized	$ 561,317
Interest capitalized	$ 561,317
Interest charged to expense	190,756
Total interest incurred	$ 752,073

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, consists 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 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 and charges for project services. Grant revenues received by the Port Authority and subsequently passed-through to third parties are considered non-operating.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 financial statement presentation. These reclassifications had no effect on changes in net assets.

Note 2: Change in Accounting Principles

During 2004, the Port Authority retroactively changed its method of financial statement presentation and disclosure by adopting the provision of Governmental Accounting Standards No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* as amended.

The changes in financial statement presentation provide a comprehensive look at the total governmental entity, and include a narrative of management's discussion and analysis of the Port Authority's financial activities. The retroactive application of the new methods had no effect on net assets at the beginning of 2003.

Note 3: 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, 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, 2004, the aggregate amount of moneys in the funds of the Port Authority was $603,857, all of which constituted "active deposits," deposited in accordance with UDA. All of that money was, at December 31, 2004, deposited with one qualified banking institution. At December 31, 2004 and 2003, respectively, approximately $100,000 and $330,000 of the Port Authority's deposits were covered by FDIC insurance. The remaining balances of approximately $742,000 and $153,000 respectively, were collateralized with securities by the pledging institutions trust department or agent, but not in the Port Authority's name. At no time during the two-year period ending December 31, 2004 did the Port Authority have any amounts for investment not constituting active deposits.

Investments

Investments represent trusteed 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, 2004, U.S. Bank N.A., the trustee for the Special Obligation Development Revenue Bonds issued to finance the Cincinnati Mills Mall infrastructure project, held investments with a fair value of $2,181,176, 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). Substantially all of those investments were in the Capitalized Interest Account from which all capitalized and prefunded bond and administrative payments were and are to be made. 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.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2004 and 2003

Summary of Carrying Values

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

	2004	2003
Carrying value		
Deposits	$ 603,857	$ 434,885
Investments	2,410,785	—
	$ 3,014,642	$ 434,885
Included in the following balance sheet captions		
Cash	$ 603,857	$ 434,885
Restricted cash and investments - current	1,144,536	—
Noncurrent cash and investments	1,266,249	—
	$ 3,014,642	$ 434,885

Investment Income

Investment income for the years ended December 31, 2004 and 2003, consisted of:

	2004	2003
Interest income	$ 1,425	$ 3,589
Net decrease in fair value of investments	(55,593)	—
	$ (54,168)	$ 3,589

Note 4: Accounts Receivable

Accounts receivable consist of the following at December 31, 2004 and 2003:

	2004	2003
Mill Creek Restoration Project	$ —	$ 62,216
Other Projects	12,500	22,470
Refundable payroll taxes	—	18,031
	$ 12,500	$ 102,717

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2004 and 2003

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2004 and 2003 was:

	2004				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land – Cincinnati Mills	$ —	$ 10	$ —	$ —	$ 10
Land improvements – Cincinnati Mills	—	792,108	—	3,727,308	4,519,416
Buildings – Cincinnati Mills	—	9,049,436	—	1,035,439	10,084,875
Construction in progress – Cincinnati Mills	—	4,762,747	—	(4,762,747)	—
Office equipment	30,843	1,618	—	—	32,461
Leasehold improvements	10,188	—	—	—	10,188
	41,031	14,605,919	—	—	14,646,950
Less accumulated depreciation					
Land improvements – Cincinnati Mills	$ —	$ (21,235)	$ —	$ —	$ (21,235)
Buildings – Cincinnati Mills	—	(37,341)	—	—	(37,341)
Office equipment	(8,666)	(6,294)	—	—	(14,960)
Leasehold improvements	(7,924)	(2,264)	—	—	(10,188)
	(16,590)	(67,134)	—	—	(83,724)
Capital Assets, Net	$ 24,441	$14,538,785	$ —	$ —	$14,563,226

	2003				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Office equipment	$ 24,772	$ 6,071	$ —	$ —	$ 30,843
Leasehold improvements	10,188	—	—	—	10,188
	34,960	6,071	—	—	41,031
Less accumulated depreciation					
Office equipment	$ (3,216)	$ (5,450)	$ —	$ —	$ (8,666)
Leasehold improvements	(4,528)	(3,396)	—	—	(7,924)
	(7,744)	(8,846)	—	—	(16,590)
Capital Assets, Net	$ 27,216	$ (2,775)	$ —	$ —	$ 24,441

Note 6: Development Costs in Excess of Fair Value

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 performed certain site preparation work. Upon completion of the site preparation work, the Port Authority, at its discretion, would lease or sell the property to the developer. The developer will then complete construction of the project.

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 was used for the site preparation work at the property that is subject to the development agreement mentioned above. The total costs incurred as of December 31, 2004 on the site preparation work are approximately $950,000 and additional costs of approximately $993,000 were incurred through February 2005. At December 31, 2004, $372,337 of these costs were considered development costs in excess of fair value. This land was subsequently sold in February of 2005 for approximately $780,000.

Note 7: Bond Payable – Cincinnati Mills

In February of 2004, the Port Authority issued $18 million of Special Obligation Development Revenue Bonds for the purpose of financing costs of the development of public infrastructure improvements for the Cincinnati Mills Mall. The assets acquired, improved, constructed or otherwise developed by the Port Authority with the proceeds of the bonds include a parking garage, a parking lot, two detention ponds and the ring road serving the mall. The mall owner (currently Cincinnati Mills, L.L.C., an affiliate of the Mills Corporation) agreed to complete the necessary improvements to those facilities and, upon completion, to manage those facilities for the Port Authority and to 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 cities (Fairfield and Forest Park, Ohio) in which the mall is located. The bonds are payable from service payments to be made by the mall owner to the cities which have assigned those payments to the Port Authority which has, in turn, assigned those payments to U.S. Bank, National Association, the bond trustee. At closing, the service payments were projected to be sufficient to pay the principal of and interest on the bonds. In addition, upon petition by the mall owner, the cities imposed special assessments on the mall, to be collected in the event that there is any anticipated shortfall in service payments. The obligations of the mall owner to pay service payments and any special assessments are secured by a statutory tax lien on the mall. In addition, a debt service reserve fund, in an initial amount of $1,489,600, is to be maintained with the bond trustee. That reserve fund was initially funded by a letter of credit issued by Fleet National Bank.

The debt service requirements as of December 31, 2004, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2005	$ 1,144,535	$ —	$ 1,144,535
2006	1,144,535	—	1,144,535
2007	1,144,535	—	1,144,535
2008	1,144,535	—	1,144,535
2009	1,410,873	275,000	1,135,873
2010 – 2014	7,064,680	1,680,000	5,384,680
2015 – 2019	7,075,823	2,315,000	4,760,823
2020 – 2024	7,095,558	3,195,000	3,900,558
2025 – 2029	7,120,160	4,420,000	2,700,160
2030 – 2034	7,146,200	6,115,000	1,031,200
	$ 41,491,434	$ 18,000,000	$ 23,491,434

Note 8: Public Funding

For the period ended December 31, 2004 and 2003, public funding for the Port Authority came from the following sources:

	2004	2003
Hamilton County, Ohio	$ 350,000	$ 200,000
City of Cincinnati, Ohio	350,000	384,548
United States Environmental Protection Agency	—	42,117
	$ 700,000	$ 626,665

The Port Authority is dependent upon these continued sources of funding for continued operations. The City and the County have each agreed to provide $285,000 in 2005.

Note 9: Operating Leases

Noncancellable operating leases for office space and equipment expire in various years through 2009. The office lease contains thirteen semi-annual renewal options commencing April 30, 2003.

Future minimum lease payments at December 31, 2004, were:

2005	$ 27,863
2006	3,468
2007	3,468
2008	3,468
2009	1,156
	$ 39,423

Note 10: 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. However, the Port Authority has not elected and does not provide disability benefits, annual cost of living adjustments, and death benefits. 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 2004 amounted to 8.5% for the employee share and 13.55% for the employer share. Employer contributions required amounted to $41,220 and $39,354 for 2004 and 2003, respectively.

Note 11: 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 12: Conduit Revenue Bond Obligations

The Port Authority has aggregate conduit revenue bond obligations of $98,850,000 and $54,000,000 at December 31, 2004 and 2003, 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 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:

2005	$ 155,000
2006	160,000
2007	160,000
2008	165,000
2009	170,000
Thereafter	3,040,000
	$ 3,850,000

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 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.

Queen City Square Project

In June of 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 are being constructed 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.

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

TIF Bond	
2005	$ —
2006	—
2007	—
2008	—
2009	73,078
Thereafter	9,926,922
	$ 10,000,000
Lease Bond	
2005	$ —
2006	—
2007	661,305
2008	704,989
2009	751,558
Thereafter	32,882,148
	$ 35,000,000

Supplementary Information

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 Port of Greater Cincinnati Development Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated August 3, 2005. As discussed in Note 2 to the basic financial statements, The Port of Greater Cincinnati Development Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended and interpreted, as of December 31, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization'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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

BKD, LLP

August 3, 2005

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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
MAY 4, 2006