Port of Greater Cincinnati Development Authority

Accountants’ Report and Financial Statements

December 31, 2005 and 2004

Mary Taylor, CPA
Auditor of State

Board of Directors
Port of Greater Cincinnati Development Authority
1014 Vine St, Suite 1600
Cincinnati, Ohio 45202-1163

We have reviewed the *Independent Accountants' Report on Financial Statements and Supplemental Information* of the Port of Greater Cincinnati Development Authority, Hamilton County, prepared by BKD LLP, for the audit period January 1, 2005 through December 31, 2005. 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

January 16, 2007

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Port of Greater Cincinnati Development Authority
December 31, 2005 and 2004

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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, 2005 and 2004 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 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, 2005 and 2004, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2006 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 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 are 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

May 11, 2006

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 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 year ended December 31, 2005. Please read this information in conjunction with the Port Authority's basic financial statements and footnotes that begin on page 12.

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. Therefore, for the remainder of the year, the Port Authority focused its resources (human and financial capital) on the remediation and redevelopment of brownfield properties, as well as economic development financings.

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 bonds 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, 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 2005 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.

2005 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 (up to early June 2005) 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.

Summary of Grant Funds – The Banks

The Port Authority developed the funding strategy related to funding a portion of the public infrastructure components of The Banks project; and the Port Authority acted as the lead applicant in submitting grant applications to various Federal and State funding agencies, with the City of Cincinnati and Hamilton County as joint grant applicants.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2005

The grant funding sources listed below are reimbursement grant programs and therefore grant funds would not be received by the Port Authority until the public improvements described in the grant applications had been undertaken. No activities were undertaken prior to the transfer of The Banks project to Hamilton County; and therefore, no grant funds were received for disbursement. Further, in late 2005, the Port Authority was informed by Hamilton County that the County had requested that the grant funds be reprogrammed to the County as the lead applicant. Therefore, these funds will not be reflected in future financial statements.

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

Summary of Grant Funds – Brownfield Projects

The intended result of the Port Authority's involvement in City of Cincinnati and Hamilton County 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.

Project Name	Clean Ohio Funds
Cleanups/Assessments Completed During 2004/2005	
3603 East Kemper Road, Sharonville, Ohio	$ 1,500,000
5700 Center Hill Road, Cincinnati, Ohio	349,500
3333 Vine Street, Cincinnati, Ohio	496,151
400 Pike Street, Cincinnati, Ohio	845,500
4000 Red Bank Road, Fairfax, Ohio	3,000,000
Subtotal	6,191,151
2005 Grant Awards	
5025 Carthage Avenue, Norwood, Ohio	750,000
320 S. Anthony Wayne Avenue, Lockland, Ohio *	2,882,130
Subtotal	3,632,130
Total	$ 9,823,281

*Grant award at December 2005 Clean Ohio Council meeting. Project activities were begun in 2006.

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2005

Summary of Bond Financings

In support of economic development projects within the City of Cincinnati and Hamilton County, the Port Authority issues revenue bonds. These bonds are based on the credit worthiness of the borrower and backed by a letter of credit from a financial institution. As noted below, two financings were closed in 2004; and no financings were closed in 2005.

Date of Issue	Project Name	Bond Amount
February 2004	Cincinnati Mills	$ 18,000,000
June 2004	303 Broadway at Queen City Square	45,000,000
	Total	$ 63,000,000

The $45,000,000 bond for the Queen City Square project is conduit debt that is not reflected in the financial statements. See Note 10 to the basic financial statements for additional details.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Port Authority as of December 31, 2005 and 2004:

	2005	2004	Increase/ (Decrease)
Assets:			
Current assets – unrestricted	$ 782,087	$ 1,399,038	$ (616,951)
Current assets – restricted	1,144,536	1,144,536	—
Noncurrent assets:			
Capital assets, net	14,208,163	14,563,226	(355,063)
Other noncurrent assets	1,162,596	2,352,111	(1,189,515)
Total assets	$ 17,297,382	$ 19,458,911	$ (2,161,529)
Liabilities:			
Current liabilities – payable from unrestricted	$ 27,044	$ 314,403	$ (287,359)
Current liabilities – payable from restricted	381,512	381,511	1
Noncurrent liabilities	18,000,000	18,000,000	—
Total liabilities	18,408,556	18,695,914	(287,358)
Net assets:			
Invested in capital assets, net of related debt	(1,484,705)	59,873	(1,544,578)
Unrestricted	373,531	703,124	(329,593)
Total net assets	(1,111,174)	762,997	(1,874,171)
Total liabilities and net assets	$ 17,297,382	$ 19,458,911	$ (2,161,529)

2005 to 2004 Comparative Balance Sheets

Current assets - unrestricted

The $616,951 decrease in unrestricted current assets is primarily due to the sale of land at the East Kemper Road site for $782,681 in 2005, partially offset by an increase in cash between years.

Current assets - restricted

This category represents the $1,144,536 trust funds pledged on the Cincinnati Mills revenue bond financing.

Capital asset, nets

The $355,063 decrease in net capital assets is primarily due to approximately $351,000 of depreciation on capital assets related to the Cincinnati Mills revenue bond financing.

Other noncurrent assets

The $1,189,515 decrease in other noncurrent assets is primarily due to the $1,082,561 decrease in non-current investments used for interest payments plus other payments related to the Cincinnati Mills revenue bond financing.

Current liabilities - payable from unrestricted

The $287,359 decrease in current liabilities is due to the timing of vendor invoices received for professional services.

Current liabilities - payable from restricted

This category represents the $381,512 restricted current liabilities related to the Cincinnati Mills revenue bond financing.

Noncurrent liabilities

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2005

CONDENSED REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION

The Port Authority's net assets decreased by $1,874,171 in 2005. Key elements of these changes are summarized below:

	2005	2004	Increase/ (Decrease)
Operating revenues			
Public funding	$ 460,000	$ 700,000	$ (240,000)
Charges for project services	224,825	402,742	(177,917)
Other income	1,975	3,989	(2,014)
Total operating revenues	686,800	1,106,731	(419,931)
Operating expenses			
Direct project services	1,902,295	801,916	1,100,379
General and administrative	720,021	619,179	100,842
Total operating expenses	2,622,316	1,421,095	1,201,221
Operating loss	(1,935,516)	(314,364)	(1,621,152)
Non-operating income (loss)			
Grant receipts	2,596,518	1,003,556	1,592,962
Grant expenditures	(2,596,518)	(678,427)	(1,918,091)
Investment income (loss)	61,345	(54,168)	115,513
Total non-operating income	61,345	270,961	(209,616)
Decrease in net assets	(1,874,171)	(43,403)	(1,830,768)
Net assets – beginning of year	762,997	806,400	(43,403)
Net assets – end of year	$ (1,111,174)	$ 762,997	$ (1,874,171)

Operating revenues

Operating revenues are segmented into two major categories, public funding and project services. Public funding revenue from the City of Cincinnati, Ohio and Hamilton County, Ohio provides the majority of operating revenue. Project services revenue stems from all projects pursued by the Port Authority. Operating revenues decreased by $419,931 (37.9%) from $1,106,731 in 2004 to $686,800 in 2005. The decrease is due to a decrease in fees for project services of $177,917, primarily ($163,000) from the Cincinnati Mills bond closing receipts in 2004, and a decrease in public funding from the City of Cincinnati and Hamilton County of $240,000 in 2005.

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2005

Operating expenses
The operating expenses include charges for project services and compensation and related costs of all staff. Operating expenses increased $1,201,221 (84.5%) from the prior year. The composition of certain elements changed as follows:

- A $40,136 (10.7%) decrease in salaries and benefits primarily resulted from the Director of Finance position changing from staffed fulltime to contract consulting.
- The $17,976 decrease in professional services is primarily due to 2004 activity not recurring in 2005 offset by outside contracting for the Director of Finance position.
- Depreciation and amortization increased $293,801 primarily due to capital assets related to the Cincinnati Mills revenue bond financing.
- Interest increased $953,780 as a result of the Cincinnati Mills revenue bond financing.
- The remaining operating expenses, net increased $11,752.

Operating loss
Operating loss increased $1,621,152 in 2005 as compared to 2004. The reasons for the increase 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 income decreased $209,616 from the prior year. The decrease primarily resulted from the capitalization of $407,794 in land improvements on the East Kemper Road project in 2004, which was partially offset by an increase in the 2005 investment income due to the Cincinnati Mills bond financing.

Decrease in net assets
The 2005 decrease in net assets of approximately $1,874,000 is primarily due to expenses net of revenues related to the Cincinnati Mills transaction of approximately $1,541,000, paid from trust funds capitalized and pledged upon the issuance of the related revenue bonds. This non-recourse net expense will, over the life of the revenue bonds, change to net revenue due to front-end expenditures for interest and depreciation/amortization expense with minor revenue in the first three years, and the start of ramped-up revenue from principal payments beginning after the fifth year. Revenues, net of Port Authority administrative fees, will offset expenses over the life of the revenue bonds.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending 2005

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

The Port Authority does not anticipate further revenues and expenses related to The Banks development.

Brownfield project related revenues and expenses are expected to remain relatively unchanged in 2006. During 2004 and 2005, the Port Authority's brownfield projects were in varying states of completion. As provided on page 6 of this document, the Port Authority's brownfield projects include: 3603 East Kemper Road, 5700 Center Hill Road, 3333 Vine Street, 400 Pike Street, 4000 Red Bank Road, 5025 Carthage Avenue, and 320 South Anthony Wayne Avenue projects. 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 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 several projects with the potential to close in the next couple of years, including some that may be included on 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. During 2004, the Port Authority closed $63 million in revenue bond financings and did not issue revenue bonds in 2005.

Financial Statements

Port of Greater Cincinnati Development Authority

Balance Sheets

December 31, 2005 and 2004

	2005	2004
Assets		
Current Assets		
Unrestricted Assets		
Cash	$ 777,587	$ 603,857
Accounts receivable	4,500	12,500
Property held for redevelopment	—	782,681
Total unrestricted current assets	782,087	1,399,038
Restricted Assets		
Cash and cash equivalents	59,051	45,921
Short-term investments	1,085,485	1,098,615
Total restricted current assets	1,144,536	1,144,536
Total current assets	1,926,623	2,543,574
Noncurrent Assets		
Cash and cash equivalents, restricted	114,070	183,688
Investments, restricted	—	1,082,561
Bond issue costs, net	1,048,526	1,085,862
Depreciable capital assets, net	14,208,163	14,563,226
Total noncurrent assets	15,370,759	16,915,337
Total assets	$ 17,297,382	$ 19,458,911
Liabilities and Net Assets		
Current Liabilities		
Payable from Unrestricted Assets		
Accounts payable	$ 22,082	$ 309,298
Accrued expenses	4,962	5,105
Total current liabilities payable from unrestricted assets	27,044	314,403
Payable from Restricted Assets		
Accrued interest	381,512	381,511
Total current liabilities	408,556	695,914
Noncurrent Liabilities		
Payable from Restricted Assets		
Bond payable	18,000,000	18,000,000
Total liabilities	18,408,556	18,695,914
Net Assets		
Invested in capital assets, net of related debt	(1,484,705)	59,873
Unrestricted net assets	373,531	703,124
Total net assets	(1,111,174)	762,997
Total liabilities and net assets	$ 17,297,382	$ 19,458,911

Port of Greater Cincinnati Development Authority

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2005 and 2004

	2005	2004
Operating Revenues		
Public funding	$ 460,000	$ 700,000
Charges for services	224,825	402,742
Other income	1,975	3,989
Total operating revenues	686,800	1,106,731
Operating Expenses		
Salaries and benefits	335,823	375,959
Professional services	572,595	590,571
Occupancy	29,472	28,253
Travel	8,995	8,434
Equipment and supplies	15,607	13,264
Depreciation and amortization	395,160	101,359
Interest	1,144,536	190,756
Other operating expenses	120,128	112,499
Total operating expenses	2,622,316	1,421,095
Operating Loss	(1,935,516)	(314,364)
Non-operating Income (Loss)		
Grant receipts	2,596,518	1,003,556
Less grant expenditures	(2,596,518)	(678,427)
Investment income (loss)	61,345	(54,168)
Total non-operating income	61,345	270,961
Decrease in Net Assets	(1,874,171)	(43,403)
Net Assets, Beginning of Year	762,997	806,400
Net Assets, End of Year	$ (1,111,174)	$ 762,997

Port of Greater Cincinnati Development Authority

Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	2005	2004
Operating Activities		
Receipts from public funding sources	$ 460,000	$ 722,470
Receipts from charges for services	232,825	397,142
Receipts from other sources	1,975	22,020
Paid to vendors	(1,103,615)	(578,405)
Paid to employees	(266,366)	(311,382)
Interest paid on Cincinnati Mills revenue bond	(1,144,533)	(370,562)
Net cash used in operating activities	(1,819,714)	(118,717)
Capital and Related Financing Activities		
Purchase of capital assets	(2,761)	(14,044,602)
Proceeds from issuance of long-term debt	—	18,000,000
Payment of bond issuance costs	—	(1,120,087)
Net cash (used in) provided by capital and related financing activities	(2,761)	2,835,311
Investing Activities		
Interest on investments	61,345	1,425
Purchase of investments	(67,150)	(2,236,770)
Proceeds from sale and maturities of investments	1,162,841	—
Proceeds from sale of (acquisition of) property held for redevelopment	782,681	(82,668)
Net cash provided by (used in) investing activities	1,939,717	(2,318,013)
Increase in Cash and Cash Equivalents	117,242	398,581
Cash and Cash Equivalents, Beginning of Year	833,466	434,885
Cash and Cash Equivalents, End of Year	$ 950,708	$ 833,466
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating loss	$ (1,935,516)	$ (314,364)
Adjustments for items not requiring cash for operating activities:		
Depreciation and amortization	395,160	101,359
Bad debt expense	—	55,316
Changes in assets and liabilities		
Accounts receivable	8,000	34,901
Prepaid expenses	—	5,013
Accounts payable	(287,216)	243,760
Accrued expenses	(142)	(234,702)
Refundable deposits	—	(10,000)
Net cash used in operating activities	$ (1,819,714)	$ (118,717)

Port of Greater Cincinnati Development Authority
Notes to Financial Statements
December 31, 2005 and 2004

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 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 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. 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, 2005, 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 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. All capital assets in excess of $1,000 are capitalized. 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:

	2005	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	1,144,536	190,756
Total interest incurred	$ 1,144,536	$ 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, 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 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 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 2004 financial statements to conform to the 2005 financial statement presentation. These reclassifications had no effect on changes in net assets.

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, 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, 2005, the aggregate amount of moneys in the funds of the Port Authority was $777,587, all of which constituted "active deposits," deposited in accordance with UDA. All of that money was, at December 31, 2005, deposited with one qualified banking institution. At December 31, 2005 and 2004, approximately $100,000 of the Port Authority's deposits was covered by FDIC insurance. The remaining bank balances of approximately $895,000 and $742,000 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, 2005 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, 2005 and 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 $1,085,485 and $2,181,176, 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). 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.

Summary of Carrying Values

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

	2005	2004
Carrying value		
Deposits	$ 777,587	$ 603,857
Investments	1,258,606	2,410,785
	$ 2,036,193	$ 3,014,642
Included in the following balance sheet captions		
Cash	$ 777,587	$ 603,857
Restricted cash and investments - current	1,144,536	1,144,536
Noncurrent cash and investments	114,070	1,266,249
	$ 2,036,193	$ 3,014,642

Investment Income (Loss)

Investment income (loss) for the years ended December 31, 2005 and 2004 consisted of:

	2005	2004
Interest income	$ 71,038	$ 1,425
Net decrease in fair value of investments	(9,693)	(55,593)
	$ 61,345	$ (54,168)

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2005 and 2004

Note 3: Capital Assets

Capital assets activity for the years ended December 31, 2005 and 2004 was:

	2005				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements – Cincinnati Mills	$ 4,519,426	$ —	$ —	$ —	$ 4,519,426
Buildings – Cincinnati Mills	10,084,875	—	—	—	10,084,875
Office equipment	32,461	2,761	—	—	35,222
Leasehold improvements	10,188	—	—	—	10,188
	14,646,950	2,761	—	—	14,649,711
Less accumulated depreciation:					
Land improvements – Cincinnati Mills	$ (21,235)	$ (127,336)	$ —	$ —	$ (148,571)
Buildings – Cincinnati Mills	(37,341)	(224,123)	—	—	(261,464)
Office equipment	(14,960)	(6,365)	—	—	(21,325)
Leasehold improvements	(10,188)	—	—	—	(10,188)
	(83,724)	(357,824)	—	—	(441,548)
Capital Assets, Net	$14,563,226	$ (355,063)	$ —	$ —	$14,208,163

	2004				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements – Cincinnati Mills	$ —	$ 792,118	$ —	$ 3,727,308	$ 4,519,426
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

Note 4: 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.

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 was 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.

Upon completion of the site preparation work, the Port Authority sold the property to a developer in February of 2005 for approximately $780,000.

Note 5: Bond Payable – Cincinnati Mills

In February of 2004, the Port Authority issued an aggregate of $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 bonds consist of a $7,465,000 term bond maturing in February 2024 and a $10,535,000 term bond maturing in February 2034. 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 was funded initially, and at December 31, 2005, by a letter of credit issued by Fleet National 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, primarily the revenues assigned by the cities 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 6.30% and 6.40% for the 2024 and 2034 term bonds, respectively.

The debt service requirements as of December 31, 2005, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
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	1,412,918	295,000	1,117,918
2011 – 2015	7,065,375	1,790,000	5,275,375
2016 – 2020	7,080,095	2,470,000	4,610,095
2021 – 2025	7,102,113	3,410,000	3,692,113
2026 – 2030	7,118,000	4,710,000	2,408,000
2031 – 2034	5,723,920	5,050,000	673,920
	$ 40,346,899	$ 18,000,000	$ 22,346,899

Note 6: Public Funding

For the years ended December 31, 2005 and 2004, public funding for the Port Authority came from the following sources:

	2005	2004
Hamilton County, Ohio	$ 285,000	$ 350,000
City of Cincinnati, Ohio	175,000	350,000
	$ 460,000	$ 700,000

The Port Authority is dependent upon these public sources of funding for continued operations. The Port Authority expects to receive $350,000 from the City and $350,000 from the County in 2006.

Note 7: 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 expiring October 31, 2009.

Future minimum lease payments at December 31, 2005, were:

2006	$ 28,852
2007	3,468
2008	3,468
2009	1,156
	$ 36,944

Note 8: 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 based on the offering selected. 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 2005 amounted to 8.5% for the employee share and 13.55% for the employer share. Employer contributions required amounted to $36,002, $41,220 and $39,354 for 2005, 2004 and 2003, respectively, which equaled 100% of the required contributions for each year.

Note 9: 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 adequate reserves.

Settled claims have not exceeded the Port Authority's commercial insurance coverage for any of the past three years.

Note 10: Conduit Revenue Bond Obligations

The Port Authority has aggregate conduit revenue bond obligations of approximately $99,000,000 at December 31, 2005 and 2004, 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 moneys deposited in the Construction Fund and the Bond Fund, 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:

2006	$ 160,000
2007	160,000
2008	165,000
2009	170,000
2010	180,000
Thereafter	2,860,000
	$ 3,695,000

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 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 expected to be 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.

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

TIF Bond	
2006	$ —
2007	—
2008	—
2009	73,078
2010	78,094
Thereafter	9,848,828
	$ 10,000,000

Lease Bond	
2006	$ —
2007	661,305
2008	704,989
2009	751,558
2010	801,203
Thereafter	32,080,945
	$ 35,000,000

Note 11: Subsequent Events

Cincinnati Zoo Project

In January 2006, the Port Authority issued $750,000 principal amount of port authority revenue bonds constituting conduit revenue bond obligations, and loaned the proceeds of sale to the Cincinnati Zoo to complete a project previously financed with conduit revenue bonds issued by the Port Authority. Repayment of the bonds is secured by a letter of credit procured by the borrower and issued to the bond trustee.

Sisters of Mercy of the Americas, Regional Community of Cincinnati

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 a joint and several obligation of Sisters and certain affiliated institutions providing secondary education of young women, including McAuley High School and Mother of Mercy High School in Cincinnati.

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, 2005 and have issued our report thereon dated May 11, 2006. 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 instances 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

May 11, 2006

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
JANUARY 30, 2007

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