

Port of Greater Cincinnati Development Authority

Accountants' Report and Financial Statements

December 31, 2010 and 2009



Dave Yost • Auditor of State

Board of Directors
Port of Greater Cincinnati Development Authority
1014 Vine Street, Suite 1600
Cincinnati, Ohio 45202

We have reviewed the *Independent Accountants' Report* of the Port of Greater Cincinnati Development Authority, Hamilton County, prepared by BKD, LLP, for the audit period January 1, 2010 through December 31, 2010. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 11, 2011

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Port of Greater Cincinnati Development Authority
December 31, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10, the previously issued 2009 financial statements have been restated. Our previously issued report on those financial statements dated June 14, 2010, is no longer to be relied upon because the previously issued statements were materially misstated and that report is replaced by this report on the restated 2009 financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2011, 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 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

June 17, 2011



MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2010, 2009 and 2008

INTRODUCTION

As management of the Port of Greater Cincinnati Development Authority ("Port Authority"), we offer readers of the Port Authority's financial statements this narrative overview and analysis of the financial activities of the Port Authority for the fiscal years ended December 31, 2010, 2009 and 2008. Please read this information in conjunction with the Port Authority's basic financial statements and notes to financial statements for the years ended December 31, 2010 and 2009 that begin on page 11.

ORGANIZATIONAL HISTORY

In late 2008, the City of Cincinnati, Ohio and Hamilton County, Ohio acted on the Port Authority's request for significant changes to the original agreement that created it in December 2000. In addition to expanding the Port Authority's geographic jurisdiction to include all of Hamilton County and the City of Cincinnati, streamlining the size of the Board of Directors, and committing to a specific funding plan, the City and County agreed to grant the Port Authority substantially all powers permitted under the Port Act (Revised Code Section 4582.22) by the removal of substantially all of the limitations and restrictions on those powers contained in the Original Port Agreement.

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.



MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2010, 2009 and 2008

PORT AUTHORITY TOOLS

Special Financings, Projects, and Programs

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

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

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

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

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

Common Bond Fund Programs: These programs provide credit enhancements and long-term, fixed-rate loans that make it possible for companies to access capital markets that might otherwise be unavailable. 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 2010, 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2010, 2009 and 2008

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 and 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 as part of its brownfield development and economic redevelopment financing activities.

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

2010 PROJECT SUMMARY

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

Summary of Grant Funds – Brownfield Projects

The intended result of the Port Authority's involvement in the City of Cincinnati, Ohio and Hamilton County, Ohio area brownfield redevelopment is to recycle area land resources back into productive reuse. To achieve this result, the Port Authority responded to the development needs of the private sector by creating public-private partnerships in support of the redevelopment of environmentally challenged properties. The Port Authority plays 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2010, 2009 and 2008

<u>Project Name</u>	<u>Clean Ohio Funds</u>
<i>Cleanups/Assessments Completed During 2008 Through 2010</i>	
320 S. Anthony Wayne Avenue, Lockland, Ohio	\$ 2,882,130
5025 Carthage Avenue, Norwood, Ohio	750,000
1220 Harrison Avenue, Cincinnati, Ohio	<u>148,122</u>
Subtotal	<u>3,780,252</u>
<i>On-going Cleanups Awarded During 2006</i>	
4101 Spring Grove Avenue, Cincinnati, Ohio	<u>750,000</u>
Total	<u>\$ 4,530,252</u>

Summary of Revenue Bond Financings

In support of economic development and other authorized projects within the City of Cincinnati and Hamilton County, the Port Authority considers and, with Board approval, issues revenue bonds. One financing was closed in 2009. A portion of the proceeds of the 2008 Queen City Square financing was used to refund all outstanding 2004 bonds issued to finance the first phase of the project.

<u>Date of Issue</u>	<u>Project Name</u>	<u>Bond Amount</u>
July 2009	Fountain Square Conduit Bonds	\$ <u>16,400,000</u>
January 2008	Kenwood Central Public Parking/Infrastructure	\$ 20,430,000
December 2008	Queen City Square Financing Conduit Bonds	<u>323,000,000</u>
	Total 2008	<u>\$ 343,430,000</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2010, 2009 and 2008

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Port Authority for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Assets:			
Current assets – unrestricted	\$ 697,457	\$ 984,503	\$ 1,346,188
Current assets – restricted	5,450,417	6,105,646	6,162,606
Noncurrent assets:			
Capital assets, net	52,100,794	53,545,915	54,639,080
Other noncurrent assets	5,267,522	6,390,728	8,370,673
Total assets	<u>\$ 63,516,190</u>	<u>\$ 67,026,792</u>	<u>\$ 70,518,547</u>
Liabilities:			
Current liabilities – payable from unrestricted	\$ 50,842	\$ 49,086	\$ 74,154
Current liabilities – payable from restricted	2,406,655	2,339,237	1,357,923
Noncurrent liabilities	49,974,945	50,614,033	51,205,514
Total liabilities	<u>52,432,442</u>	<u>53,002,356</u>	<u>52,637,591</u>
Net assets:			
Invested in capital assets, net of related debt	8,088,043	9,524,567	11,293,452
Restricted net assets	2,349,090	3,564,452	5,315,470
Unrestricted net assets	646,615	935,417	1,272,034
Total net assets	<u>11,083,748</u>	<u>14,024,436</u>	<u>17,880,956</u>
Total liabilities and net assets	<u>\$ 63,516,190</u>	<u>\$ 67,026,792</u>	<u>\$ 70,518,547</u>

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

Current assets - unrestricted

Unrestricted current assets decreased \$287,000 and \$362,000 in 2010 and 2009, respectively, due to the economic slowdown in construction and reduced availability of financing, resulting in a decrease in cash.

Current assets - restricted

Restricted current assets decreased \$655,000 in 2010 primarily due to a decrease in investments of \$1,041,000 from the Cincinnati Mall 2004 public infrastructure financing and a \$392,000 net decrease in deposits held for others, offset by an increase in trustee investments of \$815,000 from the Kenwood Central 2008 public parking/infrastructure financing. There was a minor net decrease in 2009.



MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2010, 2009 and 2008

Capital assets, net

Net capital assets decreased \$1,445,000 in 2010 due to depreciation related to project revenue financings. The decrease of \$1,093,000 in 2009 is a result of depreciation related to project revenue financings net of additions from the Fairfax Red Bank 2007 public infrastructure financing.

Other noncurrent assets

In 2010, other noncurrent assets decreased \$1,123,000 primarily due to a decrease in trustee investments from the Kenwood Central 2008 public infrastructure financing. The decrease of \$1,980,000 in 2009 is due to a decrease in trustee investments, primarily the Cincinnati Mall 2004 public infrastructure financing.

Current liabilities - payable from unrestricted

There is no significant change from the prior year for this line item in 2010 or 2009.

Current liabilities - payable from restricted

Current liabilities payable from restricted funds increased \$67,000 in 2010 primarily due to an increase of \$320,000 in bonds payable on the Cincinnati Mall 2004 public infrastructure financing, and an increase of \$164,000 in legal and administrative expenses payable on the Kenwood Central 2008 public infrastructure financing and the Cincinnati Mall 2004 public infrastructure financing; offset by a \$392,000 net decrease in deposits held for others. The increase of \$981,000 in 2009 is primarily due to an increase of \$772,000 payable on the Kenwood Central 2008 public infrastructure financing and the Cincinnati Mall 2004 public infrastructure financing, and an increase of \$413,000 in deposits held for others; partially offset by a decrease in accrued interest on bond financings.

Noncurrent liabilities

Noncurrent liabilities decreased \$639,000 and \$591,000 in 2010 and 2009, respectively, with the movement of noncurrent bonds payable to current liabilities.



MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2010, 2009 and 2008

CONDENSED REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION

Provided below is information regarding condensed revenues, expenses, and changes in net assets for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Operating revenues			
Public funding	\$ 700,000	\$ 700,000	\$ 875,000
Charges for project services	340,242	332,061	1,064,431
Total operating revenues	1,040,242	1,032,061	1,939,431
Operating expenses			
Direct project services	3,881,586	4,522,278	3,064,943
General and administrative	1,282,913	1,352,664	1,176,801
Total operating expenses	5,164,499	5,874,942	4,241,744
Operating loss	(4,124,257)	(4,842,881)	(2,302,313)
Non-operating income			
Grant receipts	41,987	582,870	1,368,505
Grant expenditures	(41,987)	(582,870)	(1,368,505)
Bond service payments	1,155,070	910,328	18,792,454
Investment income	28,499	76,033	256,359
Total non-operating income	1,183,569	986,361	19,048,813
(Decrease) increase in net assets	(2,940,688)	(3,856,520)	16,746,500
Net assets – beginning of year	14,024,436	17,880,956	1,134,456
Net assets – end of year	\$ 11,083,748	\$ 14,024,436	\$ 17,880,956

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

Operating revenues

Operating revenues are segmented into two major categories - public funding and project services. Historically, public funding revenue from the City of Cincinnati, Ohio and Hamilton County, Ohio typically provides the majority of operating revenue. Project services revenue consists of brownfield, financing, and other projects pursued by the Port Authority. The economic slowdown that has significantly reduced new project financings is the primary reason for the flat results in 2010 and the \$907,000 decrease in operating revenues in 2009, which consists of a \$732,000 decrease in charges for services and a \$175,000 decrease in public funding.



MANAGEMENT'S DISCUSSION AND ANALYSIS **Years Ended December 31, 2010, 2009 and 2008**

Operating expenses

Operating expenses include charges for project services, and compensation and related costs of Port Authority staff. Operating expenses decreased \$710,000 in 2010 due to a decrease of \$608,000 payable on the Kenwood Central 2008 public infrastructure financing and the Cincinnati Mall 2004 public infrastructure financing, a \$131,000 decrease in professional services expense, and a \$50,000 decrease in project financing interest expense; offset by an increase of \$81,000 in salaries and benefits. The increase of \$1,633,000 in 2009 is due to an increase of \$716,000 in depreciation, amortization, interest, and administrative expenses, an increase of \$772,000 payable on the Kenwood Central 2008 public infrastructure financing and the Cincinnati Mall 2004 public infrastructure financing, and an increase of \$207,000 in salaries and benefits representing additions to personnel in 2008 and 2009; offset by a \$62,000 decrease in professional services and other operating expenses.

Operating loss

Operating loss fluctuations between years are described above under operating revenues and operating expenses.

Non-operating income

Non-operating income consists of grant revenues received and subsequently passed-through to third parties, service payments, special assessments, or other revenues assigned by and received from other public bodies to support Port Authority revenue bonds, other non-operating contributions to Port Authority projects, and certain post-closing bond reserves established for future debt service. Non-operating income increased in 2010 by \$197,000 due to a \$245,000 increase in bond service payments (primarily the Kenwood Central 2008 public parking infrastructure and Fairfax Red Bank 2007 public infrastructure financing projects), offset by a \$48,000 decrease in bond investment income. The decrease of \$18,062,000 in 2009 is due to a \$17,882,000 decrease in bond service payments (primarily the Kenwood Central 2008 public parking infrastructure project) and bond investment income.

Changes in net assets

Net assets decreased \$2,941,000 in 2010 due to a \$2,483,000 decrease in project financing net assets, a decrease of \$293,000 in non-bond net assets (primarily operating cash), and an increase of \$164,000 in legal and administrative expenses payable on the Kenwood Central 2008 public infrastructure financing and the Cincinnati Mall 2004 public infrastructure financing. The decrease of \$3,857,000 in 2009 is due to a decrease in bond activity of \$2,743,000 resulting from reduced revenue and increased depreciation and amortization, an increase of \$772,000 payable on the Kenwood Central 2008 public infrastructure financing and the Cincinnati Mall 2004 public infrastructure financing, and a decrease in non-bond activity of \$341,000.



MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2010, 2009 and 2008

Expenses (all non-operating) net of revenues for the Cincinnati Mall transaction for 2010 and 2009 are (\$1,751,000) and (\$1,748,000), respectively. Expenses (all non-operating) net of revenues for the Kenwood Central public parking transaction for 2010 and 2009 are (\$639,000) and (\$1,465,000), respectively. Expenses (all non-operating) net of revenues for the Springdale Pictoria transaction for 2010 and 2009 are (\$197,000) and (\$264,000), respectively. Expenses (all non-operating) net of revenues for the Red Bank transaction for 2010 and 2009 are (\$61,000) and (\$38,000), respectively. Other expenses net of revenues decreased net assets in 2010 and 2009 by \$ 293,000 and \$341,000, respectively.

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

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

Brownfield project-related revenues and expenses are expected to contribute slightly more to total revenue in 2011 due to the startup of new projects. Although the Port Authority earns modest fees from developers and end users involved in its brownfield projects, it is not anticipated that these fees can fully 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. No bonds were issued in 2010. Projected 2011 bond financing revenues are estimated to be slightly lower than 2010.

Due to the continuing economic slowdown, there are limited prospects for development projects. There are no major new projects projected for 2011.

The Port Authority will continue to rely on operating support provided from its public partners – the City of Cincinnati, Ohio and Hamilton County, Ohio. Due to the impact that the slowdown in economic activity has on Port Authority financing and project revenues, the City and County have increased 2011 operating grant amounts from \$350,000 each to \$525,000 each.

The City of Cincinnati, Ohio and Hamilton County, Ohio reformed the Port Authority in August 2008 by eliminating certain restrictions that will contribute to a more efficient product-delivery process. The City of Cincinnati, Ohio, Hamilton County, Ohio, and the Port Authority continue to evaluate strategic planning options for utilizing the unique tools of Ohio port authorities to enhance regional economic development initiatives.

Financial Statements

Port of Greater Cincinnati Development Authority

Balance Sheets

December 31, 2010 and 2009

Assets	2010	2009 (Restated – Note 10)
Current Assets		
Unrestricted Assets		
Cash	\$ 519,524	\$ 896,179
Accounts receivable	<u>177,933</u>	<u>88,324</u>
Total unrestricted current assets	<u>697,457</u>	<u>984,503</u>
Restricted Assets		
Cash and cash equivalents	5,218,417	4,803,646
Short-term investments	<u>232,000</u>	<u>1,302,000</u>
Total restricted current assets	<u>5,450,417</u>	<u>6,105,646</u>
Total current assets	<u>6,147,874</u>	<u>7,090,149</u>
Noncurrent Assets		
Cash and cash equivalents, restricted	2,482,730	3,492,028
Bond issue costs, net	2,784,792	2,898,700
Depreciable capital assets, net	<u>52,100,794</u>	<u>53,545,915</u>
Total noncurrent assets	<u>57,368,316</u>	<u>59,936,643</u>
Total assets	<u>\$ 63,516,190</u>	<u>\$ 67,026,792</u>
 Liabilities and Net Assets		
Current Liabilities		
Payable from Unrestricted Assets		
Accounts payable	\$ 37,379	\$ 41,180
Accrued expenses	<u>13,463</u>	<u>7,906</u>
Total current liabilities payable from unrestricted assets	<u>50,842</u>	<u>49,086</u>
Payable from Restricted Assets		
Bonds payable	932,696	580,000
Accrued interest	517,160	574,342
Accrued expenses	936,769	772,389
Deposits held for others	<u>20,030</u>	<u>412,506</u>
Total current liabilities payable from restricted assets	<u>2,406,655</u>	<u>2,339,237</u>
Total current liabilities	<u>2,457,497</u>	<u>2,388,323</u>
Noncurrent Liabilities		
Payable from Restricted Assets		
Bonds payable	<u>49,974,945</u>	<u>50,614,033</u>
Total liabilities	<u>52,432,442</u>	<u>53,002,356</u>
Net Assets		
Invested in capital assets, net of related debt	8,088,043	9,524,567
Restricted net assets	2,349,090	3,564,452
Unrestricted net assets	<u>646,615</u>	<u>935,417</u>
Total net assets	<u>11,083,748</u>	<u>14,024,436</u>
Total liabilities and net assets	<u>\$ 63,516,190</u>	<u>\$ 67,026,792</u>

Port of Greater Cincinnati Development Authority
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2010 and 2009

	2010	2009 (Restated – Note 10)
Operating Revenues		
Public funding	\$ 700,000	\$ 700,000
Charges for services	<u>340,242</u>	<u>332,061</u>
Total operating revenues	<u>1,040,242</u>	<u>1,032,061</u>
Operating Expenses		
Salaries and benefits	924,916	843,521
Professional services	421,872	1,086,007
Occupancy	48,968	47,090
Travel	17,905	15,820
Equipment and supplies	17,193	17,921
Depreciation and amortization	1,559,029	1,559,703
Interest	1,474,454	1,524,593
Other operating expenses	<u>700,162</u>	<u>780,287</u>
Total operating expenses	<u>5,164,499</u>	<u>5,874,942</u>
Operating Loss	(4,124,257)	(4,842,881)
Non-operating Income		
Grant receipts	41,987	582,870
Less grant expenditures	(41,987)	(582,870)
Bond service payments	1,155,070	910,328
Investment income	<u>28,499</u>	<u>76,033</u>
Total non-operating income	<u>1,183,569</u>	<u>986,361</u>
Decrease in Net Assets	(2,940,688)	(3,856,520)
Net Assets, Beginning of Year	<u>14,024,436</u>	<u>17,880,956</u>
Net Assets, End of Year	<u>\$ 11,083,748</u>	<u>\$ 14,024,436</u>

Port of Greater Cincinnati Development Authority
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009 (Restated – Note 10)
Operating Activities		
Receipts from public funding sources	\$ 700,000	\$ 700,000
Receipts from charges for services	250,633	269,954
Other operating receipts	(392,476)	412,506
Paid to vendors	(1,291,053)	(1,409,602)
Paid to employees	(673,827)	(633,723)
Interest paid on revenue bonds	<u>(1,531,636)</u>	<u>(1,758,174)</u>
Net cash used in operating activities	<u>(2,938,359)</u>	<u>(2,419,039)</u>
Capital and Related Financing Activities		
Bond service payments	1,155,070	910,328
Purchase of capital assets	—	(349,292)
Principal payments on long-term debt	<u>(285,000)</u>	<u>(550,000)</u>
Net cash provided by capital and related financing activities	<u>870,070</u>	<u>11,036</u>
Investing Activities		
Investment income	28,499	76,033
Purchase of investments	(1,001,652)	(2,538,439)
Proceeds from sale and maturities of investments	<u>2,070,260</u>	<u>2,759,652</u>
Net cash provided by investing activities	<u>1,097,107</u>	<u>297,246</u>
Decrease in Cash and Cash Equivalents	(971,182)	(2,110,757)
Cash and Cash Equivalents, Beginning of Year	<u>9,191,853</u>	<u>11,302,610</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,220,671</u>	<u>\$ 9,191,853</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash	\$ 519,524	\$ 896,179
Restricted cash and cash equivalents - current	5,218,417	4,803,646
Restricted cash and cash equivalents	<u>2,482,730</u>	<u>3,492,028</u>
Total cash and cash equivalents	<u>\$ 8,220,671</u>	<u>\$ 9,191,853</u>
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating loss	\$ (4,124,257)	\$ (4,842,881)
Adjustments for items not requiring cash for operating activities:		
Depreciation and amortization	1,559,029	1,559,703
Changes in assets and liabilities		
Deposits held for others	(392,476)	412,506
Accounts receivable	(89,609)	(62,107)
Accounts payable	(3,801)	(24,638)
Accrued expenses	<u>112,755</u>	<u>538,378</u>
Net cash used in operating activities	<u>\$ (2,938,359)</u>	<u>\$ (2,419,039)</u>

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

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. In August 2008, the City and County removed substantially all of the restrictions that had initially been imposed on the Port Authority, so the Port Authority is now permitted to use all powers available to Ohio port authorities.

The Port Authority primarily seeks to identify, restore, and redevelop properties in Hamilton County affected or perceived to be affected by environmental contamination, to provide development financing through the issuance of revenue bonds, and to identify and pursue other opportunities to promote economic development, transportation, and other statutorily authorized purposes of the Port Authority.

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

Basis of Accounting and Presentation

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

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

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Cash Equivalents

The Port Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010, cash equivalents consisted primarily of money market accounts with brokers (See Note 2).

Investments and Investment Income

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

Capital Assets

Capital assets are stated at historical cost and depreciated using the straight-line method over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements. Property held for redevelopment that is environmentally contaminated or perceived to be contaminated, is not depreciated until redevelopment is completed. Bond financing assets are depreciated over the life of the bond, or a lesser useful life when appropriate. Capital assets in excess of \$2,500 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 was:

	<u>2010</u>	<u>2009</u>
Total interest expense incurred on borrowings	\$ —	\$ 198,309
Interest income from investment of proceeds of borrowings for project	<u>—</u>	<u>—</u>
Net interest cost capitalized	<u>\$ —</u>	<u>\$ 198,309</u>
Interest capitalized	\$ —	\$ 198,309
Interest charged to expense	<u>1,474,454</u>	<u>1,524,593</u>
Total interest incurred	<u>\$ 1,474,454</u>	<u>\$ 1,722,902</u>

Issue Costs

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

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Net Assets

Net assets of the Port Authority are classified in three 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. Restricted net assets consist of cash and investments held by trusts to secure revenue bonds reduced by liabilities payable from the trusts. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets or restricted net assets.

Operating Revenues

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

Note 2: Deposits, Investments, and Investment Income

Deposits

Moneys in the funds of the Port Authority, except as otherwise described below with respect to investments controlled by the terms of a bond resolution or trust agreement or indenture, and to the extent in excess of current needs, may be invested in accordance with the Ohio Uniform Depository Act, Revised Code Sections 135.01-135.21 (“UDA”). At December 31, 2010, the aggregate amount of moneys in the unrestricted general operating funds of the Port Authority was \$534,000, all of which constituted “active deposits,” deposited in accordance with UDA. All of that money was, at December 31, 2010, deposited with two qualified banking institutions. At December 31, 2010 and 2009, approximately \$286,000 and \$332,000, respectively, of the Port Authority’s deposits were covered by FDIC insurance. The remaining bank balances at December 31, 2010 and 2009, of approximately \$268,000 and \$980,000, respectively, were collateralized with securities by the pledging institution’s trust department or agent, but not in the Port Authority’s name. At no time during the two-year period ending December 31, 2010 did the Port Authority have any amounts for investment in the unrestricted general operating funds of the Port Authority not constituting active deposits.

Deposits Held for Others

As part of an application for a Ridge Pointe \$2.6 million (maximum) bond financing expected to be issued in 2011, \$20,000 was set aside to cover expenses in the event the financing did not proceed. The \$20,000 is included in cash and cash equivalents, and is reflected as “deposits held for others” in current liabilities.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Pursuant to the Pictoria Corporate Center Cooperative Agreement, applications were filed for real property tax exemption and remission for the Springdale/Pictoria garage building and plaza improvements parcels. These applications were granted. As a result of those tax exemptions, the Hamilton County Auditor remitted \$411,851 to the Port Authority in July 2009. The \$411,851 was distributed in December 2010 consistent with a Memorandum of Understanding dated August 28, 2009, among the Port Authority, the City of Springdale, MEPT Pictoria, LLC, and the Trustee, including \$22,709 to reimburse the trust account for payments previously made by the trust to the school district.

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, 2010 and 2009, U.S. Bank N.A., the trustee for the Cincinnati Mall 2004 infrastructure project revenue bonds, held investments with a fair value of \$232,000 and \$1,302,000, respectively, all of which were obligations of the U.S. Treasury in addition to investments in money market funds comprised solely of such obligations with a fair value of \$139,766 and \$148,124, respectively. In 2010 and 2009, substantially all of those investments were in the trusteed bond reserve fund and the other amounts were primarily held in trusteed revenue fund accounts. The investments have maturities that correspond to and precede the payments to be made from the proceeds of those investments, and are all expected to be held until maturity.

At December 31, 2010 and 2009, U.S. Bank N.A., the trustee for the Springdale Pictoria 2006 public parking/infrastructure revenue bonds, held investments in money market funds with a fair value of \$1,578,471 and \$1,678,862, respectively, all of which were invested only in obligations of the U.S. Treasury. The majority of the funds were held in the trusteed bond reserve fund, including bond and interest reserve accounts, and in trusteed revenue fund accounts.

At December 31, 2010 and 2009, U.S. Bank N.A., the trustee for the Fairfax Red Bank 2007 public infrastructure bonds, held investments in money market funds with a fair value of \$1,302,202 and \$1,174,077, respectively, all of which were invested only in obligations of the U.S. Treasury (or money market funds comprised solely of such obligations); a portion (\$601,096 and \$541,954, respectively) of such investments is allocated to the assets of the Port Authority financed with those bonds. The balance is allocated to the conduit portion of those bonds and is not treated as an asset of the Port Authority. The majority of those funds were held in the supplemental payments account, pledged revenue account, and the bond reserve fund.

At December 31, 2010 and 2009, U.S. Bank N.A., the trustee for the Kenwood Central 2008 public parking/infrastructure revenue bonds, held investments in money market funds with a fair value of \$5,361,784 and \$5,514,228, respectively, all of which were obligations of the U.S. Treasury. The majority of the funds were held in the project fund, including the construction account, the capitalized interest account, and the developer cost account.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Investment Risks

Interest Rate Risk – The Port Authority’s investment policy limits its operating (non-trusted) investment portfolio to maturities of less than one year. The specific terms of each bond trust’s governing documents determine the length of those investment maturities. At December 31, 2010 and 2009, all Port Authority investments have effective maturity dates of less than one year.

Custodial Credit Risk – Operating (non-trusted) investments of the Port Authority are insured, registered in the name of the government, and/or collateralized with securities by the pledging institution’s trust department or agent; therefore, there is no custodial credit risk exposure.

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

Summary of Carrying Values

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

	<u>2010</u>	<u>2009</u>
Carrying value		
Deposits	\$ 539,554	\$ 1,308,685
Investments	<u>7,913,117</u>	<u>9,185,168</u>
	<u>\$ 8,452,671</u>	<u>\$ 10,493,853</u>
Included in the following balance sheet captions		
Cash	\$ 519,524	\$ 896,179
Restricted cash and investments - current	5,450,417	6,105,646
Noncurrent cash and investments	<u>2,482,730</u>	<u>3,492,028</u>
	<u>\$ 8,452,671</u>	<u>\$ 10,493,853</u>

Investment Income

Investment income for the years ended December 31, 2010 and 2009 consisted of:

	<u>2010</u>	<u>2009</u>
Interest income	\$ 3,156	\$ 6,686
Net increase in fair value of investments	<u>25,343</u>	<u>69,347</u>
	<u>\$ 28,499</u>	<u>\$ 76,033</u>

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Note 3: Capital Assets

Capital assets activity for the years ended December 31, 2010 and 2009 was:

	Beginning Balance	2010			Ending Balance
		Additions	Disposals	Transfers	
Land improvements – Cincinnati Mall	\$ 4,519,426	\$ —	\$ —	\$ —	\$ 4,519,426
Land improvements – Springdale Pictoria	882,619	—	—	—	882,619
Land improvements –Red Bank	2,539,587	—	—	—	2,539,587
Land easements –Red Bank	450,000	—	—	—	450,000
Buildings – Cincinnati Mall	10,084,875	—	—	—	10,084,875
Buildings –Springdale Pictoria	9,260,329	—	—	—	9,260,329
Buildings –Kenwood Central Parking	12,687,156	—	—	—	12,687,156
Construction in progress – Kenwood Central Parking	17,306,122	—	—	—	17,306,122
Office equipment	33,059	—	—	—	33,059
Leasehold improvements	<u>9,141</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,141</u>
	<u>57,772,314</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>57,772,314</u>
Less accumulated depreciation:					
Land improvements – Cincinnati Mall	(732,038)	(152,040)	—	—	(884,078)
Land improvements – Springdale Pictoria	(116,989)	(36,459)	—	—	(153,448)
Land improvements –Red Bank	(184,241)	(114,200)	—	—	(298,441)
Buildings – Cincinnati Mall	(1,514,072)	(342,832)	—	—	(1,856,904)
Buildings –Springdale Pictoria	(1,202,914)	(383,687)	—	—	(1,586,601)
Buildings –Kenwood Central Parking	(445,813)	(411,520)	—	—	(857,333)
Office equipment	(21,191)	(4,383)	—	—	(25,574)
Leasehold improvements	<u>(9,141)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(9,141)</u>
	<u>(4,226,399)</u>	<u>(1,445,121)</u>	<u>—</u>	<u>—</u>	<u>(5,671,520)</u>
Capital Assets, Net	<u>\$53,545,915</u>	<u>\$(1,445,121)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$52,100,794</u>

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

	Beginning Balance	2009			Ending Balance
		Additions	Disposals	Transfers	
Land improvements – Cincinnati Mall	\$ 4,519,426	\$ —	\$ —	\$ —	\$ 4,519,426
Land improvements – Springdale Pictoria	882,619	—	—	—	882,619
Land improvements –Red Bank	1,951,013	—	—	588,574	2,539,587
Land easements –Red Bank	450,000	—	—	—	450,000
Buildings – Cincinnati Mall	10,084,875	—	—	—	10,084,875
Buildings –Springdale Pictoria	9,260,329	—	—	—	9,260,329
Buildings –Kenwood Central Parking	12,687,156	—	—	—	12,687,156
Construction in progress – Red Bank	246,976	341,598	—	(588,574)	—
Construction in progress – Kenwood Central Parking	17,306,122	—	—	—	17,306,122
Office equipment	33,059	—	—	—	33,059
Leasehold improvements	<u>9,141</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,141</u>
	<u>57,430,716</u>	<u>341,598</u>	<u>—</u>	<u>—</u>	<u>57,772,314</u>
Less accumulated depreciation:					
Land improvements – Cincinnati Mall	(579,998)	(152,040)	—	—	(732,038)
Land improvements – Springdale Pictoria	(80,530)	(36,459)	—	—	(116,989)
Land improvements –Red Bank	(82,357)	(101,884)	—	—	(184,241)
Buildings – Cincinnati Mall	(1,171,241)	(342,831)	—	—	(1,514,072)
Buildings –Springdale Pictoria	(819,227)	(383,687)	—	—	(1,202,914)
Buildings –Kenwood Central Parking	(34,293)	(411,520)	—	—	(445,813)
Office equipment	(16,373)	(4,818)	—	—	(21,191)
Leasehold improvements	<u>(7,617)</u>	<u>(1,524)</u>	<u>—</u>	<u>—</u>	<u>(9,141)</u>
	<u>(2,791,636)</u>	<u>(1,434,763)</u>	<u>—</u>	<u>—</u>	<u>(4,226,399)</u>
Capital Assets, Net	<u>\$54,639,080</u>	<u>\$ (1,093,165)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$53,545,915</u>

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Note 4: Bonds Payable

Cincinnati Mall Public Infrastructure (formerly known as Cincinnati Mills)

In February 2004, the Port Authority issued \$18 million principal amount of Special Obligation Development Revenue Bonds for the purpose of financing, in cooperation with the cities of Forest Park and Fairfield, costs of the development of public infrastructure improvements to support the redevelopment of the suburban retail center currently known as Cincinnati Mall. The bonds consisted of \$7,465,000 principal amount of term bonds maturing on February 15, 2024, and \$10,535,000 principal amount of term bonds maturing on February 15, 2034. The assets acquired, improved, constructed, or otherwise developed by the Port Authority with the proceeds of the bonds include a public parking garage and other parking facilities, two stormwater detention ponds, and public roadways supporting the mall.

The bonds were issued pursuant to a cooperative agreement with the cities in which the mall is located. The bonds are payable from service payments (in lieu of exempted taxes) to be made by the owners of mall properties to those cities, and from special assessments imposed by those cities on mall property upon petition of the mall owner. The service payments and special assessments collected by the cities have been assigned to the Port Authority. The Port Authority has, in turn, assigned those amounts to U.S. Bank N.A., the bond trustee under the trust indenture securing the bonds.

At issuance, the Port Authority entered into a management agreement with Cincinnati Mills, L.L.C., the original mall owner, to manage the facilities owned by the Port Authority. The management agreement has an initial term ending on February 15, 2019 and requires that the manager pay related costs, including taxes, insurance, as well as costs of operation, maintenance, and repair. In March 2010, Cincinnati Holding Co., L.L.C. acquired title to the mall properties, subject to the rights and interest of the Port Authority, and assumed the rights and obligations of the original mall owner under the cooperative agreement and other bond documents, including the management agreement.

In 2008, Cincinnati Mills, L.L.C. sought and was granted (with all appeals resolved in 2009) a reduction in the tax valuation of various mall properties and, as a result, service payments were significantly reduced, and may remain reduced. In 2010 the current owner of the mall sought and was granted a reduction in the tax valuation of six parcels included in the mall properties and, as a result, the likelihood that the service payments will increase is reduced. These valuation reductions were appealed by the school district, and these appeals were not resolved as of December 31, 2010. Those reduced amounts of future service payments are to be offset by an increase in the amount of special assessments to be collected by the cities annually.

Owners of mall property have acknowledged that the obligations to pay service payments and any special assessments are secured by a statutory tax lien or its equivalent, and run with the land.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Under the trust indenture, a debt service reserve, in an initial amount of \$1,489,600, was established with the bond trustee. The mall owner failed to pay any portion of the 2008 (due in 2009) and the 2009 (due in 2010) ad valorem taxes, or the service payments and special assessments. As a result, amounts on deposit in the debt service reserve fund were drawn by the trustee and used to pay \$219,291 in interest due on August 17, 2009, \$563,605 in interest due February 16, 2010, and \$563,605 in interest due on August 16, 2010.

The trustee determined not to withdraw additional funds from the Bond Reserve Fund to pay the \$295,000 principal amount of the 2024 term bonds due (by mandatory sinking fund redemption) on February 16, 2010. On February 17, 2010, the trustee issued a notice of default to the owner of the mall properties.

As of December 31, 2010, the amount of the debt service reserve fund was \$237,135, including an unrealized gain of \$5,708. As of December 31, 2010, the reserve was invested in a \$232,000 FNMA discount note with the variance in money market funds. As of December 31, 2009, the reserve was invested in a \$1,302,000 FNMA discount note.

The bonds are special limited obligations of the Port Authority payable only from the funds established with and revenues assigned to the bond trustee under the trust indenture, primarily the revenues assigned by the cities to the Port Authority under the cooperative agreement and treated as non-operating revenues of the Port Authority. The bondholders have no recourse to any other revenues or assets of the Port Authority.

The principal balance outstanding as of December 31, 2010 and 2009 was \$17,725,000. A principal payment was made in 2009 for \$275,000, a principal payment of \$295,000 due in 2010 was not made, and a principal payment of \$315,000 is due in 2011.

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

Assuming the 2010 and 2011 principal payments and related accrued interest are paid on December 31, 2011, the debt service requirements are as follows:

Year Ending December 31,	Total	Principal	Interest
2011	\$ 1,760,914	\$ 610,000	\$ 1,150,914
2012	1,413,228	335,000	1,078,228
2013	1,411,493	355,000	1,056,493
2014	1,413,340	380,000	1,033,340
2015	1,413,613	405,000	1,008,613
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	<u>5,723,920</u>	<u>5,050,000</u>	<u>673,920</u>
	<u>\$ 34,436,716</u>	<u>\$ 17,725,000</u>	<u>\$ 16,711,716</u>

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Springdale Pictoria Public Parking/Infrastructure

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

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

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

The Phase II property owners have acknowledged that the obligations to pay service payments and any special assessments are secured by a statutory tax lien or its equivalent and run with the land. Under the trust indenture, two reserve funds, one in an aggregate initial amount of \$690,000 and the other at 2% of outstanding principal, are to be maintained with the bond trustee for the periods required by the trust indenture. Those reserves were funded initially from bond proceeds or equity provided by the City of Springdale from service payments collected and available for that purpose and were, at December 31, 2010 and 2009, invested in money market funds comprised of U.S. Treasury obligations managed by the bond trustee. The bonds are special limited obligations of the Port Authority payable only from the funds established with and revenues assigned to the bond trustee, primarily the revenues assigned by the City of Springdale to the Port Authority under the cooperative agreement and treated as non-operating revenues of the Port Authority. The bondholders have no recourse to any other revenues or assets of the Port Authority.

The principal balance outstanding as of December 31, 2010 and 2009 was \$9,175,000 and \$9,460,000, respectively. A principal payment was made in 2010 and 2009 for \$285,000 and \$275,000, respectively, and a principal payment due in 2011 is \$295,000.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Interest is payable semi-annually at variable interest rates currently reset annually and with conversion options permitting the interest rate to be reset weekly or fixed to maturity. Until the interest rate on the bonds is fixed to maturity, bondholders have certain rights to tender bonds for purchase, as provided by the trust indenture. At issuance and as of December 31, 2010, RBC Capital Markets (formerly Seasongood & Mayer, LLC) is the remarketing agent for the bonds. Credit and liquidity support are provided for the bonds pursuant to a U.S. Bank N.A. Irrevocable Letter of Credit dated October 25, 2006 and amended, extended, and reissued as of April 29, 2009, stated to expire on February 15, 2012, but extended one additional year annually thereafter if not terminated by the bank at least 270 days before February 15, 2012 or any subsequent expiration date. Obligations under the reimbursement agreement providing for that letter of credit are payable only from the trust estate established under the trust indenture.

At December 31, 2009, the interest rate on the bonds was 2.25% per year through January 31, 2010. At February 1, 2010, the interest rate was reset to 0.65% per year. Bank, remarketing, and other fees amounted to an additional estimated 1.50% per year through September 2009, and increased to approximately 1.85% per year beginning in October 2009 as a result of the reissuance of the letter of credit. The trustee received a notice that the Bank intends to raise the annual letter of credit fee by 0.40% of the stated amount of the letter of credit; however, the indenture has not been amended. At February 1, 2011, the interest rate was reset to 0.75% per year. Assuming a constant interest rate of 0.75% per year from February 1, 2011 to the maturity of the bonds, debt service as of December 31, 2010, is estimated as follows:

Year Ending December 31,	Total	Principal	Interest
2011	\$ 358,119	\$ 295,000	\$ 63,119
2012	370,456	305,000	65,456
2013	383,113	320,000	63,113
2014	390,675	330,000	60,675
2015	398,163	340,000	58,163
2016 – 2020	2,159,638	1,910,000	249,638
2021 – 2025	2,470,963	2,300,000	170,963
2026 – 2030	2,836,313	2,760,000	76,313
2031	<u>617,306</u>	<u>615,000</u>	<u>2,306</u>
	<u>\$ 9,984,746</u>	<u>\$ 9,175,000</u>	<u>\$ 809,746</u>

Fairfax Red Bank Public Infrastructure

In May 2007, the Port Authority issued \$7,675,000 principal amount of Special Obligation Development Revenue Bonds for the purpose of financing costs of the acquisition, construction, installation, equipping, improvement, and development, in cooperation with the Village of Fairfax, Ohio, of public infrastructure improvements. The bonds consist of \$2,145,000 principal amount of term bonds maturing on February 1, 2025 and \$5,530,000 principal amount of term bonds maturing on February 1, 2036. The improvements financed include road and street improvements, public utility (water, sanitary sewer, and storm water control facilities), and public safety improvements, in support of a mixed-use commercial development generally known as Red Bank Village.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Revenues to support the payment of the bonds consist primarily of service payments to be made in lieu of certain exempted taxes assigned by the Village to the Port Authority under a cooperative agreement and assigned by the Port Authority to the bond trustee.

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

Under the trust indenture, a debt service reserve, in an initial amount of \$738,271 (\$750,821 at December 31, 2010 versus a fully funded reserve amount of \$763,375), is maintained with the bond trustee. The initial amount of that reserve was funded from the proceeds of the sale of the bonds. The bonds are special limited obligations of the Port Authority payable only from the funds established with and revenues assigned to the bond trustee under the trust indenture, primarily the revenues assigned by the Village of Fairfax to the Port Authority under the cooperative agreement. The bondholders have no recourse to any other revenues or assets of the Port Authority.

The principal balance outstanding, including net unamortized bond premium, as of December 31, 2010 and 2009 was \$3,577,641. A principal payment of \$27,696 is due in 2011.

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

Because of the nature and location of certain of the improvements financed, those improvements are or are expected to be owned by the Village of Fairfax or other political subdivisions pursuant to cooperative agreements, dedication, or other arrangements ("Red Bank Non-Port Infrastructure"). The portion of the revenue bonds issued to finance Red Bank Non-Port Infrastructure (\$4,132,000 principal amount) and related revenues, expenses, assets and liabilities are treated as a separate issue of conduit revenue bonds issued by the Port Authority ("Red Bank Conduit Bonds"). The remaining improvements financed will be owned by the Port Authority ("Red Bank Port Infrastructure"); and, to the extent issued to finance Red Bank Port Infrastructure (\$3,543,000 principal amount), those bonds ("Red Bank Infrastructure Bonds"), and related revenues, expenses, assets, and liabilities, are treated as a separate issue of infrastructure development revenue bonds

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

issued to finance assets of the Port Authority. The debt service requirements for the Port Authority's portion of the Red Bank Infrastructure Bonds, as of December 31, 2010, are as follows:

Year Ending December 31,	Total	Principal	Interest
2011	\$ 224,978	\$ 27,696	\$ 197,282
2012	225,699	30,004	195,695
2013	226,294	32,312	193,982
2014	233,495	41,544	191,951
2015	233,454	43,852	189,602
2016 – 2020	1,214,527	311,580	902,947
2021 – 2025	1,295,336	503,144	792,192
2026 – 2030	1,393,102	777,796	615,306
2031 – 2035	1,488,992	1,140,152	348,840
2036	652,551	634,700	17,851
Net unamortized bond premium	<u>34,861</u>	<u>34,861</u>	<u>—</u>
	<u>\$ 7,223,289</u>	<u>\$ 3,577,641</u>	<u>\$ 3,645,648</u>

Kenwood Central Public Parking/Infrastructure

In January 2008, the Port Authority issued \$14,315,000 principal amount of Series 2008A Special Obligation Development Revenue Bonds (“Series A”) and \$6,115,000 of Series 2008B Taxable Special obligation Development Revenue Bonds (“Series B”) for the purpose of financing costs of the acquisition, construction, installation, equipping, improvement, and development, in cooperation with Sycamore Township, Ohio, of public infrastructure improvements. The bonds (both Series A and Series B) consist of term bonds maturing on February 1, 2039. The improvements financed include an approximately 2,500-space public parking garage and related infrastructure improvements, in support of a mixed-use commercial development, generally known as Kenwood Towne Place (“KTP Development”), and other neighboring properties including the Kenwood Towne Center Mall.

The bonds were issued pursuant to a cooperative agreement with Sycamore Township, Kenwood Towne Place LLC (“KTP”, the owner of the KTP Development), and Bear Creek Capital, LLC (“BCC”), one of the lead members of KTP. The bonds are payable from service payments (in lieu of exempted taxes) payable by KTP and other owners of the KTP Development. The bonds are also supported by minimum service payment obligations, to be made to Sycamore Township by BCC, KTP or other owners of the KTP Development. Sycamore Township has assigned the service payments and minimum service payments to the Port Authority.

The Port Authority has, in turn, assigned those payments to U.S. Bank National Association, the bond trustee under the trust indenture securing the bonds. Pursuant to that trust indenture, the Series A bonds, issued on a “tax-exempt” basis, have priority over Series B bonds with respect to service payments. The owner of the KTP Development has acknowledged that the obligations to pay service payments and the minimum service payment obligations are secured by a statutory tax lien or its equivalent and run with the land.

Port of Greater Cincinnati Development Authority

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KTP, during construction, or BCC, after completion, are required to manage the project facilities for the Port Authority. The BCC management agreement has an initial term ending on January 1, 2023 and requires that the manager pay related costs, including taxes, insurance, and costs of operation, maintenance, and repair. Pending litigation primarily relating to the construction of the KTP Development has prevented final completion of the project facilities, and a receiver has been appointed for the KTP Development.

Construction stoppage is generally an indicator of potential impairment. In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the Port considers this construction stoppage to be temporary. Because the impairment, if any, has been considered to be temporary, the related capital assets have not been adjusted as of December 31, 2010.

Costs of the Port Authority, including legal costs, are generally considered to be Administrative Expenses under the bond documents and are eligible for payment or reimbursement from the trust if and when amounts are available in the trust for such purposes. The Port Authority is also specifically indemnified by various parties including the private developer. This indemnification includes all costs of the Port Authority, including legal costs.

Due to litigation referred to above, there are currently not enough trust funds to pay Administrative Expenses; however, future trust revenues and indemnification by various parties, if needed, are expected to pay these Administrative Expenses. At December 31, 2010 and 2009, the amounts outstanding for Administrative Expenses was \$753,000 and \$724,000, respectively, and are included in accrued expenses payable from restricted assets on the balance sheet.

The bonds are special limited obligations of the Port Authority payable only from the funds established with and revenues assigned to the bond trustee under the trust indenture, primarily the revenues assigned by Sycamore Township to the Port Authority under the cooperative agreement. The bondholders have no recourse to any other revenues or assets of the Port Authority.

The principal balance outstanding as of December 31, 2009 and 2010 was \$20,430,000. There is no principal payment due in 2011.

As of December 31, 2010, interest is payable semi-annually at variable interest rates currently reset weekly and with conversion options permitting the interest rate to be fixed to maturity under certain conditions. Until the interest rate on the bonds is fixed to maturity, bondholders have certain rights to tender bonds for purchase, as provided by the trust indenture. At issuance and as of December 31, 2010, RBC Capital Markets is the remarketing agent for the bonds, and credit and liquidity support are provided for each series of the bonds pursuant to a LaSalle Bank NA (now part of Bank of America) Irrevocable Letter of Credit dated January 29, 2008, and stated to expire on February 15, 2011. Bonds that are tendered and not successfully remarketed are purchased from the holders by the Trustee with the funds from the letter of credit and bear interest at the lesser of (i) the sum of the prime rate and five percent (5%) per year and (ii) fifteen percent (15%). These bonds are considered pledged bonds with the letter of credit bank as the beneficial owner until the bonds are successfully remarketed. This purchase is not considered a redemption or extinguishment.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

On December 30, 2010, U.S. Bank National Association, as Trustee, issued a “Notice of Termination of the Letter of Credit and Mandatory Tender” for each series. Each notice indicated that the Trustee has not received a notice of extension of the Bank of America letter of credit nor a notice of an alternate or replacement letter of credit.

At December 31, 2010, the interest rate on the Series A bonds was 0.33% per year through January 5, 2011, and the interest rate on the Series B bonds was 0.44% through January 5, 2011. Assuming a constant interest rate of 8.25% per year (Note 11) starting February 1, 2011, to the maturity of the tax-exempt Series A bonds, debt service is estimated as follows:

Year Ending December 31,	Total	Principal	Interest
2011	\$ 610,731	\$ —	\$ 610,731
2012	1,837,731	685,000	1,152,731
2013	1,455,244	345,000	1,110,244
2014	1,225,444	135,000	1,090,444
2015	1,223,894	145,000	1,078,894
2016 – 2020	6,421,131	1,315,000	5,106,131
2021 – 2025	6,292,169	1,825,000	4,467,169
2026 – 2030	6,057,513	2,470,000	3,587,513
2031 – 2035	5,861,606	3,360,000	2,501,606
2036 – 2039	<u>5,331,488</u>	<u>4,035,000</u>	<u>1,296,488</u>
	<u>\$ 36,316,951</u>	<u>\$ 14,315,000</u>	<u>\$ 22,001,951</u>

Assuming a constant interest rate of 8.25% per year starting February 1, 2011, to the maturity of the taxable Series B bonds, debt service is estimated as follows:

Year Ending December 31,	Total	Principal	Interest
2011	\$ 265,844	\$ —	\$ 265,844
2012	504,488	—	504,488
2013	504,488	—	504,488
2014	504,488	—	504,488
2015	504,488	—	504,488
2016 – 2020	2,522,438	—	2,522,438
2021 – 2025	2,687,019	185,000	2,502,019
2026 – 2030	3,177,881	885,000	2,292,881
2031 – 2035	3,900,856	2,150,000	1,750,856
2036 – 2039	<u>3,805,388</u>	<u>2,895,000</u>	<u>910,388</u>
	<u>\$ 18,377,378</u>	<u>\$ 6,115,000</u>	<u>\$ 12,262,378</u>

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Note 5: Public Funding

For the years ended December 31, 2010 and 2009, public funding for the Port Authority came from the following sources:

	2010	2009
Hamilton County, Ohio	\$ 350,000	\$ 350,000
City of Cincinnati, Ohio	<u>350,000</u>	<u>350,000</u>
	<u>\$ 700,000</u>	<u>\$ 700,000</u>

The Port Authority is dependent upon these public sources of funding for continued operations. The Port Authority expects to receive \$1,050,000 (\$525,000 each) from the City and County in 2011 for operations.

Note 6: Operating Leases

As of December 31, 2010, noncancellable operating leases for office space and equipment expire in various years through 2014. The office space lease expires June 30, 2014, with two three-year renewal options. In August 2009, the Port Authority modified the equipment lease agreement with a lease expiration date of November 2014.

Future minimum lease payments are:

2011	\$ 55,942
2012	57,982
2013	60,103
2014	32,680
2015	—
Thereafter	<u>—</u>
	<u>\$ 206,707</u>

Note 7: Retirement and Post-employment Benefit Plan

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

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

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, 2009 and 2008, member and employer contribution rates were consistent across all three plans. Contribution rates for calendar years 2010, 2009, and 2008 were 10% and 14% for the employee and employer shares, respectively, for each year. Employer contributions required were \$95,015, \$88,721, and \$68,126 for 2010, 2009, and 2008, respectively, which equaled 100% of employer charges for each year.

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

The Ohio Revised Code provides statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010 and 2009, local employer units contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contribution allocated to health care was 7% from January 1 through March 31, 2009, 5.5% from April 1, 2009 through February 28, 2010, and 5.0% from March 1, 2010 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries.

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Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the employer contributions that was made to fund health care benefits is \$9,700 for the year ended December 31, 2010. Of that amount, approximately \$3,500 was used for post-employment benefits.

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

Note 8: Risk Management

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

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

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

Note 9: Conduit Revenue Bond Obligations

The Port Authority has outstanding aggregate conduit revenue bond obligations of approximately \$351,930,000 and \$379,701,000 at December 31, 2010 and 2009, 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 except from third-party revenues unconditionally and irrevocably assigned to pay those obligations.

Cincinnati Zoo Project

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

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

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

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

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

	<u>Series 2003</u>	<u>Series 2005</u>
2011	\$ 185,000	\$ 40,000
2012	190,000	40,000
2013	195,000	40,000
2014	200,000	40,000
2015	205,000	40,000
Thereafter	<u>1,885,000</u>	<u>350,000</u>
	<u>\$ 2,860,000</u>	<u>\$ 550,000</u>

National Underground Railroad Freedom Center Project

In April 2003, the Port Authority issued \$50 million of Adjustable Rate Demand Revenue Bonds, Series 2003A to provide funds to lend to the National Underground Railroad Freedom Center, Inc., (the Corporation) 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 were issued to benefit the trustee to secure the repayment of the bonds.

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

The bonds were called for full redemption on April 30, 2010, pursuant to the redemption provisions of the bond documents at the redemption price plus accrued interest to April 30, 2010.

Port of Greater Cincinnati Development Authority

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December 31, 2010 and 2009

Queen City Square Project

In December 2008, the Port Authority issued \$64 million principal amount of Taxable Special Obligation Development TIF Revenue Bonds (“TIF bonds”) and \$259 million principal amount of Taxable Special Obligation Development Lease Revenue Bonds (“lease bonds”) for the purpose of financing costs of constructing an office building and parking garage included in the second phase of the Queen City Square redevelopment in downtown Cincinnati, and refinancing all outstanding bonds previously issued by the Port Authority to finance costs of phase one construction. The bond amounts refinanced included \$10 million in principal amount of a Taxable Special Obligation Development TIF Revenue Bond and \$33,633,705 in principal amount of a Taxable Special Obligation Development Lease Revenue Bond issued June 2004 for the purpose of financing costs of constructing the first phase of the Queen City Square Development. The first phase was completed in the first half of 2006. The two phases are physically interconnected and functionally related. The assets financed are being constructed by an affiliate of Western and 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 initially purchased for investment by various affiliates of Western Southern.

The lease bonds were issued in two series, \$175 million of Series A lease bonds and \$84 million in Series B lease bonds, all due in 2039. The TIF bonds were also issued in two series, \$48 million in Series A TIF bonds and \$16 million in Series B TIF bonds, all due in 2039.

The lease bonds are 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 Bank of New York Mellon Trust Company, N.A., the lease bond trustee. The TIF bonds are 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 bonds. 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 Mellon 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 the faith and credit of the Port Authority or the State of Ohio or any political subdivision or agency or instrumentality thereof.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

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

TIF Bonds	Series A	Series B
2011	\$ 130,000	\$ 40,000
2012	140,000	45,000
2013	420,000	200,000
2014	460,000	200,000
2015	500,000	200,000
Thereafter	<u>46,125,000</u>	<u>15,240,000</u>
	<u>\$ 47,775,000</u>	<u>\$ 15,925,000</u>

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

Lease Bonds	Series A	Series B
2011	\$ —	\$ —
2012	—	—
2013	—	—
2014	2,975,000	1,405,000
2015	3,155,000	1,490,000
Thereafter	<u>168,870,000</u>	<u>81,105,000</u>
	<u>\$ 175,000,000</u>	<u>\$ 84,000,000</u>

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

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

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

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

Port of Greater Cincinnati Development Authority

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December 31, 2010 and 2009

Fairfax Red Bank Public Infrastructure (conduit portion)

In May 2007, the Port Authority issued \$7,675,000 principal amount of Special Obligation Development Revenue Bonds for the purpose of financing costs of the acquisition, construction, installation, equipping, improvement, and development, in cooperation with the Village of Fairfax, Ohio, of public infrastructure improvements. A complete description of these bonds is included in Note 4 to Financial Statements.

Because of the nature and location of certain of the improvements financed, those improvements are owned by the Village of Fairfax or other political subdivisions pursuant to cooperative agreements (“Red Bank Non-Port Infrastructure”). The portion of the revenue bonds issued to finance Red Bank Non-Port Infrastructure (\$4,132,220 principal amount) and related revenues, expenses, assets, and liabilities are treated as a separate issue of conduit revenue bonds issued by the Port Authority (“Red Bank Conduit Bonds”). The remaining improvements financed are owned by the Port Authority (“Red Bank Port Infrastructure”); and, to the extent issued to finance Red Bank Port Infrastructure (\$3,543,000 principal amount), those bonds (“Red Bank Infrastructure Bonds”), and related revenues, expenses, assets, and liabilities, are treated as a separate issue of infrastructure development revenue bonds issued to finance assets of the Port Authority, and are presented in Note 4 to Financial Statements.

Principal of the conduit portion of the bonds is payable as follows only from the funds pledged to secure the bonds:

2011	\$	32,304
2012		34,996
2013		37,688
2014		48,456
2015		51,148
Thereafter		<u>3,927,628</u>
	\$	<u>4,132,220</u>

Fountain Square Project

In August 2009, the Port Authority issued \$15,400,000 principal amount of Port Authority Bank Qualified Facilities Revenue Refunding Bonds (Series A) and \$1,000,000 principal amount of Port Authority Taxable Facilities Revenue Refunding and Improvement Bonds (Series B) constituting conduit revenue bond obligations. The proceeds were lent to Fountain Square, L.L.C. to assist in refunding its existing adjustable rate taxable securities that were used to redevelop Fountain Square in downtown Cincinnati.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

The bonds are special, limited obligations of the Port Authority, and the principal and interest and any premium on these bonds are payable solely from pledged receipts and are not otherwise an obligation of the Port Authority. These bonds are not secured by any other obligation of the Port Authority or any pledge of moneys raised by taxation and do not constitute a debt or pledge of the faith and credit of the Port Authority or the State of Ohio or any political subdivision or agency or instrumentality thereof. Principal of the bonds is payable as follows only from the funds pledged to secure the bonds:

	<u>Series A</u>	<u>Series B</u>
2011	\$ 391,261	\$ 20,119
2012	406,674	21,285
2013	422,695	22,520
2014	439,346	23,825
2015	456,654	25,207
Thereafter	<u>12,815,081</u>	<u>863,439</u>
	<u>\$ 14,931,711</u>	<u>\$ 976,395</u>

Note 10: Restatement of Prior Year Financial Statements

The 2009 financial statements have been restated to properly include certain legal and administrative expenses of bond financings pertaining to that period. This restatement reduced previously reported 2009 changes in net assets by \$772,389.

Note 11: Subsequent Events

Cincinnati Mall Public Infrastructure Project

On February 15, 2011, there were insufficient revenues or funds otherwise available to the trustee to pay either the principal or the interest due on the bonds on that date. The trustee elected not to use the remaining amounts in the debt service reserve fund to make a partial interest payment against the \$563,605 due on that date. The trustee also did not call or pay a portion of the \$315,000 principal amount of the 2024 term bonds due (by mandatory sinking fund redemption) on February 15, 2011. Under the terms of the bond and the indenture, the unpaid and delinquent principal payment continues to bear interest at the rate of 6.30% per year.

In March 2011, at the direction of the majority bondholders, the trustee entered into a forbearance agreement with the owner of the mall. In April 2011, the owner entered into multiple delinquency agreements with Hamilton and Butler Counties regarding a payment plan for the delinquent taxes, service payments and special assessments on the mall property.

Port of Greater Cincinnati Development Authority

Notes to Financial Statements

December 31, 2010 and 2009

Kenwood Central Public Parking / Infrastructure Project

Pursuant to the Notices of Termination of the Letter of Credit and Mandatory Tender issued by the trustee on December 30, 2010, the bonds were tendered to the trustee for purchase in accordance with the trust indenture on February 1, 2011, at 100% of the principal amount plus any accrued interest. The bonds were purchased from proceeds of draws on the Bank of America letters of credit and then registered in the name of the bank. While so held, the bonds will be pledged to secure reimbursement of the bank and will bear interest at the lesser of (i) the sum of the prime rate and five percent (5%) per year and (ii) fifteen percent (15%). The current interest rate is 8.25% for both the Series A and the Series B bonds.

Springdale Pictoria Public Parking / Infrastructure

In May 2011, the trustee received a notice that the bank will not be renewing the letter of credit for any additional period. Therefore, the letter of credit will expire on February 15, 2012. If the letter of credit is not extended or replaced, or if the bonds are not converted to a fixed income rate, then the letter of credit will be drawn and the bonds will be tendered to the trustee for purchase in accordance with the trust indenture. The bonds will then be registered in the name of the bank, and, while so held, will bear interest at the bank rate.

**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, 2010, and have issued our report thereon dated June 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 10-1 to be a material weakness.

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, management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 17, 2011

Port of Greater Cincinnati Development Authority
Schedule of Findings and Responses
Year Ended December 31, 2010

Reference Number	Finding
10-1	<p><i>Criteria or Specific Requirement</i> – The Organization should have sufficient understanding and adequate accounting and review procedures in place to properly track and record expenses payable from trusts related to revenue bond financings.</p> <p><i>Condition</i> – Professional services expense, other operating expenses and accrued expenses were not correctly stated as of December 31, 2010 and 2009.</p> <p><i>Context</i> – Audit adjustments were made to adjust professional services expense, other operating expenses and accrued expenses.</p> <p><i>Effect</i> – The 2010 unaudited financial statements and 2009 audited financial statements were not in compliance with GAAP.</p> <p><i>Cause</i> – In spite of the Organization’s substantial due diligence and research, an incorrect conclusion was drawn regarding the accounting for legal and administrative costs incurred primarily related to the Kenwood Central Public/Infrastructure project.</p> <p><i>Recommendation</i> – We recommend the Organization incorporate its new understanding into its accounting policies for the proper recording of expenses payable from trusts related to existing and future revenue bond financings.</p> <p><i>Management’s Views and Response for Corrective Action Plan</i> – We agree with the recommendation and will incorporate our new understanding into our accounting policies to ensure all expenses payable from trusts related to revenue bond financings are recorded in accordance with GAAP.</p>



Dave Yost • 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
JULY 21, 2011**