The RiverSouth Authority

(A Component Unit of the City of Columbus)

Financial Statements for the Year Ended December 31, 2004 and Independent Auditors' Report

Auditor of State
Betty Montgomery

Board of Trustees
River South Authority
20 East Broad St.
Columbus, Ohio 43215

We have reviewed the Independent Auditor's Report of the River South Authority, Franklin County, prepared by Deloitte & Touche LLP, for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 10, 2005

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THE RIVERSOUTH AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The RiverSouth Authority:

We have audited the accompanying statement of net assets of The RiverSouth Authority (the "Authority"), a component unit of the City of Columbus, Ohio, as of December 31, 2004, and the related statement of revenues, expenses, and changes in net assets, and of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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 audit provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2004, and results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2–4 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2005 on our consideration of 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 read in conjunction with this report in considering the results of our audit.

Deloitte + Touche LLP

June 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") represents a discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2004 and should be read in conjunction with the Authority's financial statements, which follow this section.

HIGHLIGHTS

- The Authority was created as a new community authority pursuant to Section 349 of the Ohio Revised Code after the City of Columbus (the "City") accepted the petition submitted by the Columbus Downtown Development Corporation (the "Developer"), acting as developer.

- In June 2004, the Authority issued $37.87 million in tax-exempt debt to fund projects identified by the Developer and the City. Approximately $16.9 million was distributed as a grant expense during 2004 on redevelopment projects in downtown Columbus, Ohio.

- A capitalized interest account provides payment for debt service through June 1, 2007. An annual appropriation by the City beginning in 2007, as identified in the lease agreement between the Authority and the City, will be in an amount sufficient to pay debt service on the bonds.

- Because the Authority was established to provide funds for redevelopment projects in the downtown area and does not report these assets on its financial statements, its financial statements reflect a $15.54 million deficit in total net assets. The deficit will be reduced and eliminated as outstanding debt is paid.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority accounts for all transactions under a single enterprise fund and the financial statements are prepared using proprietary fund accounting. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting are used. Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These are followed by notes to the financial statements.

The Statement of Net Assets presents information on the assets and liabilities, with the difference between the two reported as net assets. Over time, as debt is retired, the deficit in total net assets will decrease.

The Statement of Revenues, Expenses and Changes in Net Assets reports the operating revenues and expenses and non-operating revenue and expenses of the Authority for the fiscal year with the difference being combined with any capital contributions to determine the change in net assets for the fiscal year.

The Statement of Cash Flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year's cash and cash equivalents balance ($0 for the beginning of 2004) reconciles to the cash and cash equivalents balance at the end of the current fiscal year.

The Notes to the Financial Statements are an integral part of the financial statements and provide expanded explanation and detail regarding the information reported in the statements.

FINANCIAL POSITION

The following summarizes the Authority's financial position as of December 31, 2004, its first year of operation:

ASSETS:	
Current assets	$ 22,652,434
Other noncurrent assets	183,512
Total assets	$ 22,835,946
LIABILITIES:	
Current liabilities	$ 59,986
Noncurrent liabilities	38,315,122
Total liabilities	$ 38,375,108
NET ASSETS:	
Capital assets—net of related debt	$ -
Restricted assets	20,619,694
Unrestricted net assets	(36,158,856)
Total net assets	$ (15,539,162)
Total liabilities and net assets	$ 22,835,946

Assets
Undistributed bond proceeds are held by the Authority's trustee and are shown as current assets. These proceeds will be used for projects identified by the Developer and the City and to pay debt service on the bonds through June 1, 2007. The Authority also records an Investment in Capital Lease in the amount of $2 million. This amount is the fair market value of land that was donated to the Authority and will revert to the City at the end of the lease period.

Liabilities
The Authority issued $37.87 million in bonds and has unamortized bond premium of $445,122 that is included in noncurrent liabilities.

Net Assets
The deficit is a result of how the Authority is structured and its basic operations. The Authority was established to provide funds for redevelopment projects in the downtown area and does not report these assets on its financial statements. The deficit will be reduced and eliminated as outstanding debt is paid.

Operating Revenues
The Authority received no operating revenue in 2004. Lease payments from the City as identified in the Master Lease Agreement and the First Supplemental Lease will begin in 2007.

Operating Expenses
The Authority distributed $16,869,120 to fund projects for the Developer and the City. Projects included redesign of the Main Street Bridge over the Scioto River, land purchase and redevelopment of the Lazarus building.

Capital Assets and Debt Administration
The Authority does not have any Capital Assets. Bond proceeds are used to fund projects of the Developer and the City and those assets are recorded with the respective entity.

At December 31, 2004, the Authority had $37.87 million in outstanding special revenue bonds issued to finance redevelopment projects in downtown Columbus. For further information regarding the Authority's debt, refer to Note 5 to the basis financial statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Authority's finances and to reflect the Authority's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to the RiverSouth Authority Treasurer, 20 East Broad Street, Columbus, Ohio.

THE RIVERSOUTH AUTHORITY

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

ASSETS

CURRENT ASSETS:	
Restricted cash	$ 20,619,694
Investment in capital lease with the primary government	2,000,000
Accrued interest receivable	29,245
Prepaid assets and other	3,495
Total current assets	22,652,434
NON-CURRENT ASSETS—Other	183,512
TOTAL	$ 22,835,946

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 11,304
Accrued expenses	48,682
Total current liabilities	59,986
NON-CURRENT LIABILITIES—Bonds payable	38,315,122
NET ASSETS:	
Invested in capital assets—net of related debt	
Restricted—capital projects	20,619,694
Unrestricted net assets (deficiency)	(36,158,856)
Total net assets	(15,539,162)
TOTAL	$ 22,835,946

See notes to financial statements.

THE RIVERSOUTH AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2004

OPERATING EXPENSES:	
Grant distributions	$ 16,869,120
Real estate taxes	48,682
Legal	3,268
Accounting	1,046
Insurance	3,495
Total operating expenses	16,925,611
OPERATING LOSS	(16,925,611)
NON-OPERATING REVENUES (EXPENSES):	
Investment income	150,021
Interest expense	(769,944)
Other	6,372
Total non-operating expense	(613,551)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(17,539,162)
CAPITAL CONTRIBUTIONS	2,000,000
NET ASSETS:	
Beginning of year	
End of year	$ (15,539,162)

See notes to financial statements.

THE RIVERSOUTH AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES—	
Grant distributions to the City of Columbus and Columbus Downtown Development Corporation	$(16,869,120)
Net cash used in operating activities	(16,869,120)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from debt issuance	38,558,723
Interest paid on debt	(769,944)
Bond issuance costs	(420,741)
Net cash provided by capital and related financing activities	37,368,038
CASH FLOWS FROM INVESTING ACTIVITIES—	
Interest received on cash and cash equivalents	120,776
Net cash provided by investing activities	120,776
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,619,694
CASH AND CASH EQUIVALENTS:	
Beginning of year	
End of year	$ 20,619,694
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$(16,925,611)
Adjustments to reconcile income from operations to net cash used in operating activities—	
Change in assets and liabilities:	
Prepaid expenses	(3,495)
Accounts payable and accrued expenses	59,986
NET CASH USED IN OPERATING ACTIVITIES	$(16,869,120)

See notes to financial statements.

1. ORGANIZATION AND REPORTING ENTITY

Organization—The RiverSouth Authority (the "Authority") is a new community authority created by the City of Columbus (the "City") pursuant to Chapter 349 of the Ohio Revised Code as a body corporate and politic. The Authority was created to govern the redevelopment and revitalization of a new community referred to as the RiverSouth District. The Columbus Downtown Development Corporation, a nonprofit corporation, has been appointed the Developer of the new community. The Authority Board of Trustees consists of nine members. The City of Columbus has initially appointed five of the nine Authority board members—four citizen members and one local government member. The Developer appointed four of the Board members. Over time, as development of the RiverSouth District occurs and population of the new community grows, the board appointment authority will shift from the initial appointment authority to elected citizen members of the population of the new community in specified proportions of population growth as defined by Chapter 349.04 of the Ohio Revised Code.

Reporting Entity—The Authority's financial reporting entity has been defined in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Reporting Entity*. The financial statements include all divisions and operations for which the Authority is financially accountable. Financial accountability exists if a primary government/component unit appoints a majority of an organization's governing board and is able to impose its will on that organization. Financial accountability may also be deemed to exist if there is potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government/component unit. On this basis, no governmental organizations other than the Authority itself are included in the financial reporting entity.

The City of Columbus appoints a voting majority of the Board of the Authority. Additionally, the Master lease agreement (see Note 4) between the City of Columbus and the Authority restricts the Authority from issuing any new bonded debt without approval from the City. As such the Authority is fiscally dependent of the City and is included as a discretely presented component unit in the City's Comprehensive Annual Financial Report as required by GASB Statement No. 14, *The Financial Reporting Entity.*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The financial statements of the RiverSouth Authority have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles, Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of 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.

Revenue Recognition—The Authority's revenues are derived from interest income earned on the unspent bond proceeds held by a trustee as well as land contributed to the Authority in 2004 by the Developer. The land was recorded at fair market value at the date of donation ($2,000,000) as determined by a third-party appraisal and is reflected as capital contributions in the accompanying financial statements.

Cash and Cash Equivalents—For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

Restricted Cash—Restricted assets consist of monies which are restricted legally under the bond agreement.

New Accounting Standards Not Yet Implemented—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment to GASB No. 3*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The standard is effective for periods beginning after June 15, 2004. The Authority has not completed an analysis of the impact of this standard on its reported financial statements.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The standard is effective for periods beginning after June 15, 2005. The Authority has not completed an analysis of the impact of this standard on its reported financial statements.

3. RESTRICTED CASH

At December 31, 2004, the carrying amount and the bank balance of the Authority's deposits with financial institutions was $20,619,694. These funds are on deposit with a trustee in two accounts. The Project Fund held $16,233,988 and is used for development projects. The Capitalized Interest Fund held $4,385,706 and is used to pay interest on the outstanding bonds through June 1, 2007.

Based upon criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements,* $100,000 of the bank balance was covered by deposit insurance provided by the FDIC; and $20,519,694 was uncollateralized ("Category 3") as defined by GASB. While the funds are uncollateralized and uninsured, their disposition and availability are governed a by bond resolution and the Master Trust Agreement and the First Supplemental Trust Agreement between the Authority and U.S. Bank.

4. INVESTMENT IN CAPITAL LEASE WITH PRIMARY GOVERNMENT

In order to facilitate the redevelopment, the Authority and the City entered into a Master Lease Agreement and the First Supplemental Lease both dated June 1, 2004 (collectively, the "Lease") to provide for the financing of certain improvements in the RiverSouth District. Under the terms of the Lease, the Authority agreed to issue debt to finance redevelopment activities as authorized by Columbus City Council and to lease to the City certain parcels of land located in the RiverSouth area in downtown Columbus. The City's lease interest includes the underlying land only and does not include existing buildings or improvements made whether or not the improvements are financed by bonds issued by the Authority. Upon the expiration of the lease term, all right, title, and interest in the land will be transferred to the City. The lease expires when all outstanding bonds (including any refunding bonds) are no longer outstanding. Rental payments commence November 21, 2007 in amounts equal as necessary to meet the bond service charges on the Series 2004 A Bonds, establish and maintain any required reserves and provide for the payment of any principal of or interest on notes not otherwise provided for.

The Developer provided a third-party appraisal of the property. The fair market value of the land was appraised at $2,000,000 as is reflected as contributed capital in the accompanying financial statements.

5. BONDS PAYABLE

The RiverSouth Area Redevelopment Bonds, 2004 Series A (the "bonds") were issued in the amount of $37,870,000 to provide funds to pay the costs of acquiring and developing land and acquiring and constructing community facilities. These bonds are payable from the revenues, receipts, and other moneys assigned under a Master Trust Agreement dated June 1, 2004 between the Authority and U.S. Bank National Association as Trustee (the "Trustee"), as supplemented by the First Supplemental Trust Agreement dated June 1, 2004 (together, the "Trust Agreement").

The revenues and receipts assigned by the Trust Agreement are primarily composed of certain rental payments to be paid to the Authority under the Lease with the City of Columbus. The rental payments paid by the City to the Authority are from moneys specifically appropriated for such purpose and are to be the primary source of money to pay debt service. The obligation of the City to make rental payments pursuant to the Lease is expressly made subject to the availability of annual appropriations for such purpose. Notwithstanding the requirement for annual appropriations of rental payments for the payment of debt service, the City has agreed that all such rental payments required to pay debt service will be included in the estimated budgets of the City. The Authority and the City contemplate that the supplemental agreements to the Lease will make provision for rental payments to be paid to the Authority in amounts at least adequate to meet the debt service on the 2004 Series A bonds. Neither the leased land nor the capital facilities to be financed with the bond proceeds are pledged to secure payment on the bonds. The first rental payments from the City are due December 1, 2007.

Bond premium and issuance costs for the Bonds totaling $261,610 have been capitalized and will be amortized over the life of the Bonds. Interest expense on the Bonds accrue at rates as defined in the Bonds agreement ranging from 3.375%–5.25%.

Principal and interest requirements to retire the Authority's outstanding debt at December 31, 2004 are:

Year Ending December 31	Principal	Interest
2005	$ -	$ 1,823,551
2006		1,823,551
2007		1,823,551
2008		1,823,551
2009	1,200,000	1,823,551
2010 thru 2014	9,500,000	8,219,637
2015 thru 2019	11,875,000	5,840,320
2020 thru 2024	15,295,000	2,416,262
Total	$37,870,000	$25,593,974

Principal payments are made December 1st and interest payments are made June 1st and December 1st of each year. At December 31, 2004, $4,385,706 is held with the Trustee in a Capitalized Interest account for payment of capitalized interest due through June 1, 2007.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
The RiverSouth Authority
and
The Honorable Betty Montgomery
Auditor of State:

We have audited the financial statements of The RiverSouth Authority (the "Authority") as of and for the year ended December 31, 2004, and have issued our report thereon dated June 21, 2005. 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 Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Authority in a separate letter dated June 21, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 Board of Trustees, management, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

June 21, 2005

Auditor of State
Betty Montgomery

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RIVER SOUTH AUTHORITY

FRANKLIN 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
AUGUST 23, 2005