Cleveland-Cuyahoga County Port Authority

Basic Financial Statements
December 31, 2006

Mary Taylor, CPA
Auditor of State

Board of Directors
Cleveland-Cuyahoga County Port Authority
1375 East 9th Street, Suite 2300
Cleveland, Ohio 44114-1790

We have reviewed the *Independent Auditors' Report* of the Cleveland-Cuyahoga County Port Authority, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2006 through December 31, 2006. 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 Cleveland-Cuyahoga County Port Authority is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 25, 2007

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Cleveland-Cuyahoga County Port Authority

For the Year Ended December 31, 2006

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Ciuni & Panichi
CPAs and Business Advisors

Independent Auditors' Report

To the Board of Directors of
Cleveland-Cuyahoga County Port Authority

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Cleveland-Cuyahoga County Port Authority (the "Authority") as of and for the year then ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Cleveland-Cuyahoga County Port Authority, as of December 31, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Authority changed its method of accounting for conduit debt in 2006.

As described in Note 1, during the year ended December 31, 2006, the Authority implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2007, on our consideration of the Authority's internal control over financial reporting and on 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.

To the Board of Directors of
Cleveland-Cuyahoga County Port Authority

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplemental schedules on pages 46 through 50 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplemental schedules are the responsibility of the Authority's management. The supplemental schedules on pages 46 through 48 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. For the supplemental schedules on pages 49 through 50, 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.

Ciuni & Panichi, Inc.

Cleveland, OH
June 25, 2007

Cleveland-Cuyahoga County Port Authority

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2006

General

As management of the Cleveland-Cuyahoga County Port Authority (the "Authority" or the "Port"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2006. Please read this information in conjunction with the Authority's basic financial statements and footnotes that begin on page 15.

The Authority is an independent political subdivision of the State of Ohio. It has three main business lines: 1) a maritime operation which manages the international docks on the east side of the Cuyahoga River, and a bulk cargo facility on the west side of the river; 2) the development finance operation which manages financing programs involving the issuance of revenue bonds and notes (assets and liabilities associated with the Port's financing programs are shown in the Statement of Fiduciary Net Assets) and; 3) acts as the administrator and manager of North Coast Harbor.

Overview

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are the Balance Sheet, the Statement of Revenue, Expenses and Changes in Net Assets, the Statement of Cash Flows, the Statement of Fiduciary Net Assets, and the accompanying notes to the financial statements. These statements report information about the Authority as a whole and about its activities. The Authority is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to private-sector business. The statements are presented using economic resources management focus and the accrual basis of accounting.

The Balance Sheet presents the Authority's financial position and reports the resources owned by the Authority (assets), obligations owed by the Authority (liabilities), and Authority net assets (the difference between assets and liabilities). The Statement of Revenues, Expenses and Changes in Net Assets present a summary of how the Authority's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. The Statement of Cash Flows provides information about the Authority's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financing activities. The Statement of Fiduciary Net Assets provides information on the assets and liabilities associated with Port-issued debt where third parties are the primary obligor for the repayment of the debt. The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

Port Activities refers herein to the Authority's core operations, maritime and development finance, including the cost of the administration of the Port's Operating Groups (Maritime, Development Finance and Strategic Development and Administration, including the fees generated by such groups). The annual operating and capital budgets are based on these activities.

North Coast Harbor (NCH) refers herein to activities involving the maintenance and repair of the NCH common areas, funding for which is paid entirely by the NCH Common Area Maintenance (CAM) Agreement participants: the Rock and Roll Hall of Fame and Museum, the Great Lakes Science Center, and the Cleveland Browns. While the North Coast Harbor activity flows through the Port's balance sheet, statement of revenues, expenses and changes in net assets, it has no material impact on the Port's operations.

Statement of Fiduciary Net Assets refers herein to the activities undertaking by the Port's development finance function and shows the corresponding assets and liabilities associated with all of the Port-financed projects for which bonds and notes issued by the Port Authority are still outstanding. The Port is involved in these projects in order to facilitate private industry in the creation and retention of jobs, primarily within northeastern Ohio.

While financing can be provided under a variety of different structures, the Port has two main programs for which they issue revenue bonds and notes:

The Port Authority's Common Bond Fund Program ("Bond Fund") transactions involve construction or other projects financed through the Authority's Fixed Rate Financing Program. A detailed description of the Bond Fund program can be found in the notes to the basic financial statements. Two projects financed through the Port Authority's Bond Fund program, Essroc and Port Capital Improvements, relate to the Port's maritime activities and are reflected on the Port Authority's balance sheet and Statement of Revenues, Expenses and Changes in Net Assets.

Stand Alone projects involve the financing of similar projects outside of the Bond Fund, whereby the related revenue bonds and notes are not secured by the system of reserves established under the Bond Fund program. Instead, the bonds and notes are secured by the property financed and are payable solely from the payments received by the trustee from the borrowers or other sources designated in the related agreements.

The Authority has no obligations for repayment of the bonds and notes relating to both projects; therefore, the debt and any corresponding assets are not recorded on the Authority's balance sheets, but are shown on the Authority's Statement of Fiduciary Net Assets.

It is important to note the following regarding the Authority's development finance projects:

1. For all Bond Fund financing transactions, the lender may look only to the borrower's lease or loan payments for debt service unless a default arises, in which case the reserve system established by the Authority and borrowers in the Bond Fund will make the debt service payments to the extent sufficient funds are available. The Bond Fund Program was established in 1997 with a $2,000,000 contribution from the Port Authority's operating funds and was matched with a $2,000,000 grant from the State of Ohio. This $4,000,000 in restricted funds is reflected on the Port Authority's balance sheet and the earnings on these funds are also recognized as income from investments on the Port's Statement of Revenues, Expenses and Changes in Net Assets.

2. For all Stand Alone debt transactions, the lender may look only to the borrower's lease payments and certain other specified revenue sources, along with borrower cash reserves, to provide funds for debt service payments. The Authority has no obligation to repay this debt.

Accounting Change

Prior to 2006, the Authority reported Bond Fund debt obligations on its balance sheet, along with any related assets. Stand Alone projects were disclosed in the notes to the financial statements, but were not reported. Because both types of financings do not constitute a debt or pledge of the full faith and credit of the Authority, effective January 1, 2006, the Authority changed its accounting for all conduit debt, including Bond Fund transactions, by removing the debt obligations and related assets from its balance sheet. These transactions are reflected on the Port Authority's Statement of Fiduciary Net Assets. Because of the removal of the Bond Fund debt obligations from the balance sheet, except those for which the Port is obligated to repay the debt, and the fact that the Authority has no responsibility to service the debt obligations after they are issued, effective January 1, 2006, the Authority also began recognizing any fees associated with the debt transactions in income as they are received rather than over the period the debt is outstanding. The effect of the change in accounting for conduit debt on the Authority's net assets is shown as a cumulative effect of an accounting change in the Authority's statement of revenues, expenses and changes in net assets for the year ended December 31, 2006 and is composed of the following:

Elimination of Assets:		
Capital assets	$	4,783,648
Restricted and other assets		67,632,072
Total assets		72,415,720
Elimination of Liabilities:		
Current liabilities payable from restricted assets		5,340,276
Other liabilities—including amounts relating to restricted assets		67,192,616
Total liabilities		72,532,892
Cumulative Effect of Accounting Change	$	117,172

Cleveland-Cuyahoga County Port Authority

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2006

Condensed Balance Sheet Information

Condensed balance sheet information for the Authority as of December 31, 2006, is as follows:

	2005 As Previously Reported	Cumulative Effect of Accounting Change	2005*	2006
Assets:				
Current assets	$ 13,120,848	$ -	$ 13,120,848	$ 13,937,539
Capital assets	49,346,008	(4,783,648)	44,562,360	43,658,795
Restricted and other assets	75,242,315	(67,632,072)	7,610,243	7,056,189
Total assets	$ 137,709,171	$ (72,415,720)	$ 65,293,451	$ 64,652,523
Liabilities and Net Assets:				
Liabilities:				
Current liabilities **	$ 6,868,749	$ -	$ 6,868,749	$ 5,034,295
Current liabilities payable from restricted assets	5,552,205	(5,340,276)	211,929	87,771
Other liabilities—including amounts relating to restricted assets **	81,264,461	(67,192,616)	14,071,845	13,804,341
Total liabilities	93,685,415	(72,532,892)	21,152,523	18,926,407
Net Assets:				
Invested in capital assets—net of related debt	30,143,525	(920,614)	29,222,911	30,669,932
Restricted for debt service	5,196,963	1,037,786	6,234,749	5,462,858
Restricted for capital improvements and events	-	-	-	232,776
Unrestricted	8,683,268	-	8,683,268	9,360,550
Total net assets	44,023,756	117,172	44,140,928	45,726,116
Total liabilities and net assets	$ 137,709,171	$ (72,415,720)	$ 65,293,451	$ 64,652,523

* - As restated for the accounting change discussed previously.

** - In 2005, the Port Authority reported the current portion of the debt associated with the Essroc (1997A) bond issuance (issued through the Bond Fund) as part of their Bond Fund Activities. Because the Port Authority is the ultimate obligor of the bonds, the Port reclassified this amount in 2006, and for 2005, as a current obligation of the Port Authority and not as part of the Bond Fund Activities, as previously reported in 2005. This $70,000 reclassification has no material effect on the Port Authority's financial statements.

***Current Assets**:* Current assets increased from December 31, 2005 to December 31, 2006 by approximately $817,000. Accounts receivable at December 31, 2006 included $631,000 in receivables related to the Flats East Bank project and $104,000 for November Dockage and Wharfage payable by one of our maritime tenants. No receivable existed for Flats-related costs in 2005 and November 2005 Dockage and Wharfage was paid in December of 2005. The remaining increase in current assets was a result of higher cash and investment balances resulting from the Authorities' operating activities.

***Capital Assets**:* The Authority's investment in capital assets as of December 31, 2006 and 2005 amounted to approximately $43.7 million and $44.6 million, respectively (net of accumulated depreciation). Capital assets before accumulated depreciation increased by approximately $253,000 from December 31, 2005 to December 31, 2006. Accumulated depreciation increased nearly $1.2 million during the same period, resulting in the decrease in the net capital assets.

A summary of the activity in the Authority's capital assets during the year ended December 31, 2006, is as follows:

	Balance at Beginning of Year*	Additions	Reductions	Balance at End of Year
Land and land improvements	$ 19,823,017	$ -	$ -	$ 19,823,017
Buildings, infrastructures and leasehold improvements	33,417,580	266,294	(44,987)	33,638,887
Equipment	757,883	-	-	757,883
Construction in progress	7,600	38,872	(7,600)	38,872
	54,006,080	305,166	(52,587)	54,258,659
Less accumulated depreciation	(9,443,720)	(1,197,205)	41,061	(10,599,864)
Capital assets—net	$ 44,562,360	$ (892,039)	$ (11,526)	$ 43,658,795

* - *As restated*

The major events affecting the Authority's capital assets during 2006 are as follows:

- The Port Authority replaced some of the siding and roofing of Warehouses 24 and 26 during 2006 at a cost of $177,000. Additionally, the Port spent another $41,000 to replace timber curbs on Dock 26. Finally, the Port had $38,000 in construction in progress relating to improved bulkheading at the facility leased by Great Lakes Towing.

- The increases in capital assets during 2006 were offset by nearly $1.2 million in accumulated depreciation. Additionally, the Port wrote-off the existing timber curbs on Dock 26, which were replaced in 2006.

***Restricted and Other Assets**:* The $554,000 decrease in restricted and other assets from December 31, 2005 to December 31, 2006 is related to the transfer of $650,000 from the Tax Anticipation Retirement account to the general checking account because the remaining principal on the Port's Tax Anticipation Notes was retired in November of 2006. An offsetting increase of $100,000 is due to an additional investment in a Board-controlled auxiliary reserve for projects financed through the Port Authority's Common Bond Fund Program. The Port has been directed to invest a minimum of $100,000 annually in this reserve, as well as any associated income, until the allocated fund reaches $2 million. As of December 31, 2006, the balance in this restricted cash and investment account was $1.1 million.

***Current Liabilities**:* Current liabilities decreased in 2006 by approximately $1,800,000 as the remaining principal on the Port's 2002 Tax Anticipation Notes ($2.0 million) was retired in November of 2006. This decrease was offset by increases in the current portion of other Port related debt.

Although trade Accounts Payable remained somewhat consistent between 2005 and 2006, there were changes throughout the year in this account. The Port Authority settled an arbitration claim related to the previously completed ore loader project in 2006, for which $650,000 had been accrued. This decrease was offset by a $631,000 increase in Accounts Payable related to invoices associated with the Flats East Bank project.

***Current Liabilities Payable from Restricted Assets**:* Current liabilities payable from restricted assets in 2006 decreased by $124,000 from 2005. The main reason for the decrease relates to liabilities associated with the Port's management of North Coast Harbor. In November of 2005, the second amendment to the NCH common area maintenance agreement was executed. The agreement specified two one-time expenses that were to be paid. These expenses, totaling $111,000 were accrued at December 31, 2005 and were paid in 2006 from funds restricted for NCH. The remaining decrease relates to lower accrued interest costs on Port-related debt, as this amount decreases as principal is paid down.

Other Liabilities – including amounts relating to restricted assets: The majority of activity in this category relates to the Port's long-term debt obligations, which is outlined below. The decreases in long-term debt were offset by the normal amortization of the Port's deferred operating lease income relating to the Cleveland Bulk Terminal Project.

The activity in the Authority's debt obligations outstanding during the year ended December 31, 2006 is summarized below (unamortized premiums and discounts have been combined into the appropriate increase/decrease columns):

	Balance at Beginning of Year*	Additions	Reductions	Balance at End of Year
Cleveland Bulk Terminal	$ 5,408,869	$ 73,374	$ (60,000)	$ 5,422,243
Port Improvements 1999A	4,091,699	1,654	(215,000)	3,878,353
Essroc 1997A	3,305,006	5,552	(70,000)	3,240,558
Tax Anticipation Notes	2,040,712	-	(2,040,712)	-
State of Ohio 166 Loan	493,163	-	(45,453)	447,710
Total	$ 15,339,449	$ 80,580	$ (2,431,165)	$ 12,988,864

** - Prior to restatement, 2005 debt balances included conduit debt, which was removed from the balance sheet as of December 31, 2005.*

Additional information on the Authority's long-term debt can be found in the notes to the Authority's financial statements.

Net Assets*:* Net Assets serves as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by $45.7 million at the close of the most recent fiscal year.

The largest portion of the Authority's net assets (approximately 67%) represents its investment in capital assets (e.g., land, land improvements, buildings, infrastructures, leasehold improvements and equipment), net of accumulated depreciation, less any related outstanding debt used to acquire those assets.

Of the net assets restricted for debt service, approximately $5.5 million relates to Port Activities and primarily represents cash and investments that are reserved for debt service payments on the Authority's own debt issues, as well as the $4.0 million in restricted funds that are designated to support Common Bond Fund issuances. Approximately $233,000 of the Port's net assets are attributed to activities related to North Coast Harbor and are restricted for those purposes. The remainder of the net assets on the Port's balance sheet are unrestricted.

The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Statement of Revenues, Expenses, and Changes in Net Assets Information

The Authority's operations increased its net assets by $1.6 million in 2006. Key elements of these changes are summarized below:

	Year Ended 2006	Year Ended 2005*
Operating Revenues:		
Wharfage, dockage and storage	$ 942,363	$ 767,502
Property lease and rentals	2,059,031	2,092,130
Financing fee income	1,153,579	1,471,723
Foreign trade zone fees	430,000	420,000
Parking revenues	263,567	270,359
Third party contributions	615,650	427,881
Total operating revenues	5,464,190	5,449,595
Operating Expenses:		
Salaries and benefits	2,248,199	2,088,045
Professional services	1,354,560	1,332,117
Facilities lease and maintenance	1,177,498	1,084,914
Marketing and communications	548,613	458,517
Depreciation expense	1,197,205	1,194,999
Office expense	281,796	289,970
Other expense	332,551	302,795
Total operating expenses	7,140,422	6,751,357
Operating Loss	(1,676,232)	(1,301,762)
Nonoperating Revenues (Expenses):		
Property tax receipts	3,324,337	3,264,054
Income from investments	904,382	546,262
Interest expense	(973,971)	(1,063,025)
Other—net	6,672	67,693
Total nonoperating revenues—net	3,261,420	2,814,984
Change in Net Assets	$ 1,585,188	$ 1,513,222

*—As restated for the accounting change discussed previously.

The discussion of the fluctuations in revenues, expenses and other changes in net assets which follows includes the effect of the accounting change.

Operating Revenues*:* Collectively, total operating revenues remained relatively consistent at $5.5 million in both 2005 and 2006. A discussion of the components of operating revenues and the corresponding changes are as follows.

Wharfage, Dockage, and Storage*:* These revenues are generated from Port cargo movements and they collectively increased 23% from $767,500 in 2005 to approximately $942,400 in 2006. This was primarily the result of a 19% increase in steel cargo movements from 2005 levels.

Property Lease and Rentals*:* The $33,000 or 1.6% decrease in property lease and rentals is due to a $95,000 decrease in submerged land lease revenue as the Port Authority received $186,000 from submerged land leases in 2005. This decrease was offset by a $56,000 increase in property rentals, as the Port's terminal operator leased additional space in 2006.

Financing Fee Income*:* Development finance fees decreased from $1.5 million in 2005 to $1.2 million in 2006. Development finance fee income is earned four different ways: (1) closing fees, which are one-time fees charged on conduit and Bond Fund projects based on the amount financed; (2) bond service fees, which are ongoing annual fees charged on all projects based on the outstanding principal; (3) Bond Fund application fees; and (4) Bond Fund acceptance fees. Both bond service fees and bond acceptance fees increased by $245,000 and $205,000, respectively in 2006. These increases were offset by a decrease of $750,000 in bond closing fees due to delay in closing transactions which had been initiated during the year. The Port financed four Bond Fund and four Conduit transactions in 2005 and only closed two Bond Fund and two Conduit transactions in 2006, resulting in lower bond closing fees.

Foreign Trade Zone Income: Foreign trade zone fees remained relatively consistent with their 2005 levels as most participants in the program renewed their participation for 2006.

Parking Revenues: These parking revenues relate only to revenues which can be utilized by the Port Authority and are not associated with the CAM Agreement with NCH, which also includes some parking revenues. These amounts remained consistent with their 2005 levels as a similar number of events were held at or near the Port's facilities that are used for parking in 2006.

Third Party Contributions*:* This line item represents required contributions to the Common Area Maintenance ("CAM") and Capital Repairs Funds from the CAM Agreement participants (Rock & Roll Hall of Fame and Museum, Great Lakes Science Center, and Cleveland Browns). Additionally, it includes income from parking operations which were established in 2005 in order to fund future capital improvements and to pay for the services of a professional event planning contractor to promote and manage NCH events. Third party contributions increased by $188,000 over 2005. The increase is due to a one time payment of $70,000 each being paid by the CAM participants and the City of Cleveland to fund the Capital Fund, required by their signing of the second agreement to the CAM.

Operating Expenses

Operating expenses increased approximately $389,000 (5.8%) in 2006 compared to 2005. The largest change ($160,000) occurred in the salaries and benefits line item. This is due to two additional hires in 2006, as well as the full-year impact of hires made in 2005, which increased salaries expense by $110,000. The additional employees, coupled with an increase in employee insurance premiums, increased benefits costs by an additional $24,000 for 2006.

The remaining Port Activities operating expenses represent the cost of operating the Port Authority which includes facilities lease and maintenance (includes maintenance of the port facilities and lease payments to the City of Cleveland for Docks 24-30), professional services (legal, insurance, etc.), marketing and communications, office expense, other expense (which includes employee business expenses, seminars and education, and Authority dues and memberships) and depreciation.

The increase in these operating expenses during 2006 is detailed below:

- Overall, there was a $92,000 increase in facilities lease and maintenance expenses resulting from $175,000 net increase in NCH capital improvements as required of the CAM participants in the Second Amendment to the CAM. These increases related to NCH were offset by lower routine repairs and maintenance to Port facilities, which decreased by $54,000 in 2006. In 2005, the Port sustained some storm damage to facilities, which increased repair costs. Additional savings occurred as a result of lower utility and security costs, totaling approximately $15,000.

- Marketing and communication expenses increased by $90,000 in 2006. The Port Authority continued to enhance its communications programs, particularly in the areas marketing both the Authority's maritime and development finance capabilities.

- There was a $30,000 increase in 2006 in other expenses, which include costs incurred by employees for travel, memberships in professional organizations as well as the cost of continuing education. The increase was attributable to increased continuing education for employees as well as increased travel costs, primarily related to an employee participating in a trade mission to China in 2006.

- Professional services increased by $22,000 in 2006 over 2005 as the Port Authority hired an additional executive search firm to find a replacement for their retiring President and CEO. The increased search costs were offset by lower legal costs and fewer costs associated with the proposed ferry service from Cleveland to Ontario.

Nonoperating Revenues (Expenses)

Net nonoperating revenues increased approximately $446,000 in 2006. The most significant changes were:

- ***Property tax receipts***: The largest portion of nonoperating revenues results from the Port's .13 mil property tax levy. This amount remained relatively consistent with its 2005 levels as the millage relating to this levy did not change and property values remained steady.

- ***Income from investments****:* The $358,000 increase in this line item is due to several, mainly macroeconomic issues. The yield on the Port Authority's investment portfolio continues to improve as interest rates continue to increase. As securities purchased at much lower coupon rates in 2003 and 2004 mature, the Port Authority realizes more investment income than in the past. Additionally, the other component of this line item is an increase of $114,000 over 2005 in unrealized gains on investments in the Port's portfolio, which were unrealized losses at December 31, 2005.

- ***Interest expense****:* The $89,000 decrease in interest expense results from a $58,000 decrease in interest expense relating to the Port's 2002 Tax Anticipation Notes, which were retired in November 2006. Additional decreases in interest expense are a result of the continued payment of principal on Port-related debt, thereby reducing annual interest costs.

- ***Other-net***: The $60,000 decrease in other-net non operating revenues relates to a slow down in activity for the Ferry Study in 2006.

Net Assets

The following chart details the Authority's net assets at December 31, 2006 (as adjusted for the effect of the accounting change):

	2006	2005
Total	$ 45,726,116	$ 44,140,928

Total net assets increased by $1.6 million (or 3.6%) in 2006. In 2006, the Port generated approximately $1.4 million of the increase through their normal operating activities and North Coast Harbor added an additional $.2 million to net assets, which is restricted solely to NCH activities. In 2005, the Port contributed a similar amount to net assets through their operating activities.

Factors Expected to Impact the Authority's Future Financial Position or Results of Operations

After a much better cargo year in 2006 than in 2005, maritime revenues and expenses are forecasted to be at similar levels for 2007. The Development Finance Group has budgeted revenues for 2007 in a manner more consistent with their historical averages. It is generally expected that Port Activities results will remain stable in 2007.

Contacting the Port's Finance Department

The financial statements are designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have any questions about these financial statements or need additional financial information, please contact acting Chief Financial Officer Brent Leslie.

Cleveland-Cuyahoga County Port Authority

Balance Sheet

December 31, 2006

Assets:	
Current assets:	
Cash and investments	$ 9,279,868
Accounts receivable	1,095,083
Interest receivable	85,235
Prepaid expenses	177,353
Property taxes receivable	3,300,000
Total current assets	13,937,539
Non-current assets:	
Capital assets:	
Land and land improvements	19,823,017
Buildings, infrastructures, and leasehold improvements	33,638,887
Equipment	757,883
Construction in progress	38,872
Total	54,258,659
Less accumulated depreciation	(10,599,864)
Net book value of capital assets	43,658,795
Restricted and other assets:	
Restricted cash and investments	6,082,981
Operating lease receivable	513,266
Debt issuance costs	383,861
Other	76,081
Total restricted and other assets	7,056,189
Total assets	$ 64,652,523

(continued)

The notes to the basic financial statements are an integral part of this statement

Cleveland-Cuyahoga County Port Authority

Balance Sheet (continued)

December 31, 2006

Liabilities:	
Current liabilities:	
Accounts payable	$ 970,772
Accrued wages and benefits	171,883
Deferred income	3,434,334
Current portion of bonds to be repaid by the Authority:	
Cleveland Bulk Terminal Project	105,000
Port Capital Improvements (1999A Bonds)	225,000
Essroc (1997A Bonds)	80,000
State of Ohio 166 Loan	47,306
Total current liabilities	5,034,295
Current liabilities payable from:	
Restricted assets:	
Accounts payable	15,385
Accrued interest payable	72,386
Total current liabilities payable from restricted assets	87,771
Other liabilities - including amounts relating to restricted assets:	
Deferred income	1,272,783
Revenue bonds and notes, net of current portion:	
Cleveland Bulk Terminal Project	5,317,243
Port Capital Improvements (1999A Bonds)	3,653,353
Essroc (1997A Bonds)	3,160,558
State of Ohio 166 Loan	400,404
Total other liabilities	13,804,341
Total liabilities	18,926,407
Net assets:	
Invested in capital assets, net of related debt	30,669,932
Restricted for debt service	5,462,858
Restricted for capital improvements and events	232,776
Unrestricted	9,360,550
Total net assets	45,726,116
Total	$ 64,652,523

The notes to the basic financial statements are an integral part of this statement

Cleveland-Cuyahoga County Port Authority

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended December 31, 2006

Operating revenues:		
Wharfage, dockage and storage	$	942,363
Property lease and rentals		2,059,031
Financing fee income		1,153,579
Foreign trade zone fees		430,000
Parking revenues		263,567
Third-party contributions		615,650
Total operating revenues		5,464,190
Operating expenses:		
Salaries and benefits		2,248,199
Professional services		1,354,560
Facilities lease and maintenance		1,177,498
Marketing and communications		548,613
Depreciation expense		1,197,205
Office expense		281,796
Other expense		332,551
Total operating expenses		7,140,422
Operating loss		(1,676,232)
Nonoperating revenues (expenses):		
Property tax receipts		3,324,337
Income from investments		904,382
Interest expense		(973,971)
Other - net		6,672
Total nonoperating revenues - net		3,261,420
Change in net assets		1,585,188
Net assets - beginning of year, restated		44,140,928
Net assets - end of year	$	45,726,116

The notes to the basic financial statements are an integral part of this statement

Cleveland-Cuyahoga County Port Authority

Statement of Cash Flows

For the Year Ended December 31, 2006

Operating activities:	
Receipts from customers	$ 4,948,687
Payments to suppliers for goods and services	(3,715,088)
Payments to employees	(1,729,428)
Payments of employee benefits	(491,812)
Net cash used in operating activities	(987,641)
Noncapital financing activities:	
Net proceeds from property tax collections	3,324,337
Other nonoperating expenses	(789)
Net cash provided by noncapital financing activities	3,323,548
Capital and related financing activities:	
Principal paid on debt	(2,431,165)
Interest paid on debt	(857,323)
Acquisition and construction of capital assets	(297,566)
Net cash used in capital and related financing activities	(3,586,054)
Investing activities:	
Purchase of investment securities	(11,814,247)
Proceeds from sale and maturity of investment securities	12,009,527
Interest on investments	822,759
Net cash provided by investing activities	1,018,039
Net decrease in cash and cash equivalents	(232,108)
Cash and cash equivalents - beginning of year	2,909,785
Cash and cash equivalents - end of year	$ 2,677,677

(continued)

The notes to the basic financial statements are an integral part of this statement

Cleveland-Cuyahoga County Port Authority

Statement of Cash Flows (continued)

For The Year Ended December 31, 2006

Reconciliation of operating loss to net cash from operating activities:	
Operating loss	$ (1,676,232)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,197,205
Changes in assets and liabilities:	
Accounts receivable	(716,238)
Operating lease receivables	38,718
Prepaid expenses and other assets	18,663
Accounts payable	36,311
Deferred income and other	104,068
Accrued wages and benefits	9,864
Net cash used in operating activities	$ (987,641)
Reconciliation cash and investments reported on the balance sheets to cash and cash equivalents reported on the statements of cash flows:	
Balance sheet cash and investment amounts:	
Included in current assets	$ 9,279,868
Included in restricted and other assets	6,082,981
Total	15,362,849
Investments included in the balances above that are not cash equivalents	(12,685,172)
Cash and cash equivalents reported in the statements of cash flows	$ 2,677,677
Supplemental Schedule of Non-Cash Investing, Capital and Related Financing Activities:	
Amortization of loss on defeasance and discounts on debt issues classified as interest expense	$ 80,580

The notes to the basic financial statements are an integral part of this statement

Cleveland-Cuyahoga County Port Authority

Statement of Fiduciary Net Assets
Fiduciary Funds (in thousands)

December 31, 2006

		Agency
Assets:		
Cash and cash equivalents	$	66,933
Notes and loans receivable		325,751
Financing lease receivable		38,156
Capital assets, net of accumulated depreciation		112,369
Total assets	$	543,209
Liabilities:		
Revenue bonds and notes payable	$	543,209

The notes to the basic financial statements are an integral part of this statement

Note 1 Summary of Significant Accounting Policies

Definition of Entity and Basis of Accounting - The accompanying financial statements of the Cleveland-Cuyahoga County Port Authority (the "Authority" or the "Port") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental entities as prescribed by the Government Accounting Standards Board ("GASB"). The Authority has no component units.

This conclusion regarding the financial reporting entity is based on the concept of financial accountability or the existence of an organization that raises and holds economic resources for the direct benefit of the Authority. The Authority is not financially accountable for any other organization nor is any other organization accountable for the Authority. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Ohio Revised Code. In addition, no other organization raises and holds economic resources for the direct benefit of the Authority.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected not to apply the provisions of Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue applying all applicable pronouncements issued by the GASB.

Basis of Presentation—The Port's basic financial statements consist of a balance sheet, statement of revenue, expenses and changes in net assets, statement of cash flows, and statements of fiduciary net assets. The Port uses a single enterprise fund and a fiduciary fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users. Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: Pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the entity under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the entity's own programs. The Port's fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Port's only fiduciary fund is used to account for conduit debt financing as an agent for other governments, not-for-profits or companies.

Note 1 Summary of Significant Accounting Policies (continued)

Measurement Focus— The measurement focus is on the determination of revenues, expenses, financial position, and cash flows as the identification of these items is necessary for appropriate capital maintenance, public policy, management control, and accountability.

Basis of Accounting—Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Port's enterprise fund financial statements as well as the fiduciary fund financial statement are prepared using the accrual basis of accounting. Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred. Revenues received in advance are deferred and recognized as earned over the period to which they relate. The Authority's activities are financed and operated as an enterprise fund such that the costs and expenses, including depreciation, of providing the services are recovered primarily through user charges and property taxes.

Change in Accounting for Conduit Debt—As part of its efforts to promote economic development within northeastern Ohio, over the past several years, the Authority has issued debt obligations and loaned the proceeds to industrial, commercial, governmental and nonprofit organizations, primarily located within Cuyahoga County, Ohio. The obligations are secured by the property financed and are payable solely from the payments received by the trustee from the borrowers or other sources designated in the related agreements. Prior to 2006, the Authority reported certain conduit debt obligations (the Common Bond Fund Program) on its balance sheet, along with any related assets. Because the obligations do not constitute a debt or pledge of the full faith and credit of the Authority, effective January 1, 2006, the Authority changed its accounting for conduit debt by removing all of the conduit debt obligations and related assets from its balance sheet as permitted under Interpretation No. 2 of the GASB, *Disclosure of Conduit Debt Obligations*. Because of the removal of the conduit debt obligations from the balance sheet and the fact that the Authority has no responsibility to service the conduit debt obligations after they are issued, effective January 1, 2006, the Authority also began recognizing any fees associated with the conduit debt transactions in income as they are received rather than over the period the debt is outstanding.

Such fees are not recognized in income prior to receipt because they will only be paid while the related debt is outstanding and are subject to the risk that the debt will be prepaid in advance of its scheduled maturity.

All financings classified as Conduit Debt are reflected in the Port Authority's statement of Fiduciary Net Assets.

Note 1 Summary of Significant Accounting Policies (continued)

Change in Accounting for Conduit Debt (continued)

The effect of the change in accounting for conduit debt on the statement of revenues, expenses and changes in net assets for the year ended December 31, 2006, and is composed of the following:

Elimination of Assets:	
Capital assets:	
Construction in progress	$ 4,783,648
Total	4,783,648
Less accumulated depreciation	-
Net book value of capital assets	4,783,648
Restricted and other assets:	
Restricted cash and investments	12,508,628
Financing lease receivables	13,927,513
Notes and loans receivable	39,056,068
Debt issuance costs	2,089,733
Other	50,130
Total restricted and other assets	67,632,072
Total assets	72,415,720
Elimination of Liabilities:	
Current liabilities payable from restricted assets:	
Accounts payable	2,015,048
Accrued interest payable	545,228
Current portion of revenue bonds and notes	2,780,000
Total current liabilities payable from restricted assets	5,340,276
Other liabilities—including amounts relating to restricted assets:	
Deferred income	105,366
Debt repayment security deposits payable	1,010,047
Revenue bonds and notes—net of current portion	66,077,203
Total other liabilities	67,192,616
Total liabilities	72,532,892
Cumulative Effect of Accounting Change	117,172
Net Assets at December 31, 2005, as Previously Reported	44,023,756
Net Assets at December 31, 2005, Restated	$ 44,140,928

Note 1 Summary of Significant Accounting Policies (continued)

Investments—The Authority's investments (including cash equivalents) are recorded at fair value.

Capital Assets and Depreciation—The Authority capitalizes and records fixed asset additions or improvements at historical cost. Expenditures for maintenance and repairs are charged to operating expenses as incurred. Adjustments of the assets and the related depreciation reserve accounts are made for retirements and disposals with the resulting gain or loss included in income. Depreciation begins when an asset is placed in service and is determined by allocating the cost of fixed assets over their estimated useful lives on the straight-line basis. Assets that are capitalized must be tangible in nature, have a useful life in excess of two years, and have a cost equal to or exceeding $3,000.

The general ranges of estimated useful lives by type of capital asset are as follows:

Buildings and infrastructures	10–40 years
Land improvements	10–20 years
Leasehold improvements	10–20 years
Equipment	3–10 years

Debt Issuance Costs—The costs associated with the issuance of the revenue bonds, where the Port Authority is obligated for the outstanding debt, are deferred and recognized as interest cost over the period the related debt is outstanding using the interest method.

Interest Cost—Interest cost incurred by the Authority in connection with a construction project which requires a period of time before the project is ready for its intended use is capitalized as part of the cost of the project. All other interest costs are expensed as incurred.

Compensated Absences—It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is accrued and reported as a liability when earned by the Authority's employees. There is no liability for unpaid, accumulated sick leave since employees do not receive payment for unused sick time.

Employees accrue vacation monthly based on years of service. Unused vacation leave may be carried forward a maximum of two years; however, amounts in excess of the allowed maximum must be forfeited at the end of each calendar year. The Authority allows accumulation of 960 hours of sick leave, which can only be used in the event of an illness.

Note 1 Summary of Significant Accounting Policies (continued)

Nonexchange Transactions**—**GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues (an amendment of GASB Statement No. 33*), establish accounting and financial reporting standards which address when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving value in return. Cash received or receivables recognized with respect to property taxes, grants and other nonexchange transactions that do not meet the revenue recognition criteria under GASB Statement Nos. 33 and 36 are recorded as deferred income.

The Authority records a receivable and deferred income for the estimated amount of property taxes that has been levied for the Authority during the year but will not be received and available for appropriation by the Authority until the succeeding year. Substantially all of the Authority's grants are reimbursement-based grants under which the Authority records grant revenue as eligible expenditures are incurred.

Wharfage, Dockage and Storage—Wharfage, dockage and storage revenues are recognized as they are earned by the Authority, which generally represents the periods to which such charges relate.

Lease Accounting**—**The Authority classifies leases at the inception of each lease in accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, except for leases which are not recognized for accounting purposes under Interpretation No. 2 of the Governmental Accounting Standards Board, *Disclosure of Conduit Debt Obligations*, because they secure the repayment of conduit debt.

Operating Lease Income—For operating leases which have scheduled increases in the minimum rentals specified under the leases, the Authority recognizes rental income on a straight-line basis over the lease term unless the increases are deemed systematic and rational, in which case rental income is recognized as it accrues under the terms of the rental agreement. The difference between the rentals received and the rental income recorded is shown as an operating lease receivable or deferred income in the accompanying balance sheets.

Financing Fee Income—Fees associated with conduit debt transactions are recognized in operating income as they are received because such fees will only be paid while the related debt is outstanding; therefore, they are subject to the risk that the debt will be repaid in advance of its scheduled maturity.

Nonoperating revenues and expenses **-** Revenues and expenses not meeting the definition of operating revenues and expenses. Nonoperating revenues and expenses include revenues and expenses from capital and related financing activities, and investing activities.

Statements of Cash Flows—For purposes of the statement of cash flows, cash and cash equivalents are defined as bank demand deposits, money market investments and amounts invested in overnight repurchase agreements, if any.

Note 1 Summary of Significant Accounting Policies (continued)

Restricted Assets and Related Liabilities—Bond indentures and other agreements require portions of debt proceeds as well as other resources of the Authority to be set aside for various purposes. These amounts are reported as restricted assets along with the unspent proceeds of the Authority's debt obligations. The liabilities that relate to the restricted assets are included in current liabilities payable from restricted assets and in other liabilities in the accompanying balance sheets.

Budgetary Accounting and Control—The Authority's annual budget, as provided by law, is prepared on the accrual basis of accounting. The budget includes amounts for current year revenues and expenses.

The Authority maintains budgetary control by not permitting total capital expenditures and amounts charged to individual expense categories to exceed their respective appropriations without amendment of appropriations by the Board of Directors.

New Accounting Standards— In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for Other Postemployment Benefit (OPEB) plans and supersedes guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The standards in Statement No. 43 apply to OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties that administer them. Statement No. 43 will not be effective for the Port until 2008 and, as such, the Port has not determined the impact, if any, that this statement will have on its financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* which addresses how state and local governments should account and report their costs and obligations related to postemployment health care and other non-pension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement No. 45 will not be effective for the Port until 2009 and, as such, the Port has not determined the impact, if any, that this statement will have on its financial statements.

Note 1 Summary of Significant Accounting Policies (continued)

New Accounting Standards (continued)

In December 2005, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment of GASB Statement No. 34)*, which clarifies that a legally enforceable enabling legislation restriction for purposes of determining the existence of restricted net assets is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. Limitations on the use of net assets imposed by enabling legislation must be reported as restricted net assets under GASB Statement No. 34. Under Statement No. 46, the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. In addition, this statement specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation, or if legal enforceability is reevaluated, and requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The provisions of this Statement were implemented by the Authority in 2006. This statement had no significant impact on the Authority's financial statements.

During 2006, the Port implemented GASB Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. The implementation of this Statement had no impact on the Port's financial statements or disclosures.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria for ascertaining whether certain transactions should be regarded as sales or collateralized borrowings. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006. The Port has not determined the impact, if any, that this Statement will have on its financial statements and disclosures.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address current or potential detrimental effects of existing pollution by participating in remediation activities such as site assessments and cleanups. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007. The Port has not determined the impact, if any, that this Statement will have on its financial statements and disclosures.

Note 2 Deposits and Investments

Deposits—The Authority's depository requirements are governed by state statutes and require that deposits be placed in eligible banks or savings and loans located in Ohio. Any public depository in which the Authority places deposits must pledge as collateral eligible securities of aggregate market value at least equal to the amount of deposits not insured by the Federal Deposit Insurance Corporation. Collateral that may be pledged is limited to obligations of the following entities: the U.S. government and its agencies, the State of Ohio, and any legally constituted taxing subdivision within the State of Ohio.

Custodial Credit Risk **-** The risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At December 31, 2006 the carrying amounts of the Authority's deposits were $2,466,719 and the related bank balances were $3,184,810 of which $100,000 were covered by federal depository insurance and $3,084,810 were uninsured and collateralized with securities held by the pledging institutions trust department, not in the Authority's name.

Investments—The Authority's investment policies are governed by state statutes which authorize the Authority to invest in obligations of the U.S. government, its agencies and instrumentalities; bonds and other State of Ohio obligations; certificates of deposit; money market mutual funds; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions as discussed in "Deposits" above or any eligible dealer who is a member of the National Association of Securities Dealers. Repurchase transactions are not to exceed a period of 30 days and must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of, or guaranteed by, the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Authority's name.

The Authority is prohibited from investing in any financial instrument, contract or obligation whose value or return is based upon, or linked to, another asset or index, or both, separate from the financial instrument, contract or obligation itself (commonly known as a "derivative"). The Authority is also prohibited from investing in reverse repurchase agreements.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment policies limit its investment portfolio to maturities of 5 years or less, which is in accordance with Ohio law. All of the Port's investments at December 31, 2006 have effective maturity dates of less than 5 years.

Credit Risk **–** The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policies authorize investments obligations of the U.S. Treasury, U.S. agencies and instrumentalities, interest bearing demand or time deposits, State Treasury Asset reserve of Ohio ("Star Ohio"), money market mutual funds, repurchase agreements, and in certain situations, prefunded municipal obligations, general obligations of any state and other fixed income securities. Repurchase transactions are not to exceed 30 days. Star Ohio is an investment pool created pursuant to Ohio statutes and is managed by the Treasurer of the State of Ohio.

Note 2 Deposits and Investments (continued)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Authority's investment policies provide that investments be diversified to reduce the risk of loss from over concentration in a single issuer, specifying that no more than 50% of the Authority's total investment portfolio will be invested in a single security type or with a single financial institution.

The following table presents fair value, length of maturity and the credit ratings of the Authority's investments at December 31, 2006:

Investment Type	Fair Value	AAA and A-1	Less than 1 year	1 to 5 Years	Percentage of Investments
Money market fund	$ 210,958	$ 210,958	$ 210,958	$ -	2%
Commercial paper	4,365,452	4,365,452	4,365,452	-	34%
Federal Home Loan Bank obligations	3,690,477	3,690,477	1,358,985	2,331,492	29%
Federal Home Loan Mortgage Corporation obligations	1,980,457	1,980,457	1,190,665	789,792	15%
Federal Farm Credit Bank obligations	269,409	269,409	-	269,409	2%
Federal National Mortgage Association obligations	2,379,377	2,379,377	990,940	1,388,437	18%
Total	$ 12,896,130	$ 12,896,130	$ 8,117,000	$ 4,779,130	100%

Deposits and investments of approximately $66,933,000 relating to the conduit debt were held by trustees and other third parties at December 31, 2006.

Note 3 Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance at January 1, 2006*	Additions	Deletions	Balance at December 31, 2006
Capital assets not being depreciated:				
Land and land improvements	$ 19,823,017	$ -	$ -	$ 19,823,017
Construction in progress	7,600	38,872	(7,600)	38,872
Total capital assets not being depreciated	19,830,617	38,872	(7,600)	19,861,889
Capital assets being depreciated:				
Buildings, infrastructures and leasehold improvements	33,417,580	266,294	(44,987)	33,638,887
Equipment	757,883	-	-	757,883
Total capital assets being depreciated	34,175,463	266,294	(44,987)	34,396,770
Less accumulated depreciation:				
Buildings, infrastructures and leasehold improvements	9,159,505	1,113,555	(41,061)	10,231,999
Equipment	284,215	83,650	-	367,865
Total accumulated depreciation	9,443,720	1,197,205	(41,061)	10,599,864
Total capital assets being depreciated, net	24,731,743	(930,911)	(3,926)	23,796,906
Capital assets, net	$ 44,562,360	$ (892,039)	$ (11,526)	$ 43,658,795

* - As restated

Note 4 Retirement and Postemployment Benefit Plans

Pension Benefits—All employees of the Authority are required to be members of the Ohio Public Employees Retirement System ("OPERS"). OPERS administers three separate pension plans described below:

1. ***The Traditional Pension Plan* (TP)**—a cost-sharing multiple-employer defined benefit pension plan.

2. ***The Member-Directed Plan* (MD)**—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 thereon.

Note 4 Retirement and Postemployment Benefit Plans (continued)

3. ***The Combined Plan* (CO)**—a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional 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 Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements and required supplementary information. The financial report may be obtained by making a written request to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6701 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. The Authority's employees are required to contribute 9.0% of their covered payroll to OPERS. The employer contribution rate for local government employer units was 13.70% of covered payroll in 2006, including 4.50% that is used to fund postretirement health care benefits. The Authority's total contributions to OPERS for pension benefits (excluding the amount relating to postretirement benefits) for the year ended December 31, 2006, was $158,425 which equaled 100% of the required contributions for each year.

Postemployment Benefits—In addition to the pension benefits described previously, OPERS provides postretirement health care coverage under the Traditional Pension and Combined Plans to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. During 2006, the Authority's total contributions to OPERS used to fund health care was $77,490. At December 31, 2006, the Authority was not responsible for paying premiums, contributions or claims for OPEB under OPERS or any other plan for retirees, terminated employees or other beneficiaries.

Note 4 Retirement and Postemployment Benefit Plans (continued)

OPEB is advance-funded on an actuarially determined basis through employer contributions and investment earnings thereon. The principal assumptions used for the 2005 actuarial computations (latest available) were as follows:

> ***Funding Method*—**An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
>
> ***Assets Valuation Method***—All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.
>
> ***Investment Return***—The investment assumption rate for 2005 was 6.50%.
>
> ***Active Employee Total Payroll***—An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from .50% to 6.30%.
>
> ***Health Care***—Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

At December 31, 2006, there were 369,214 active contributing participants. In addition, at December 31, 2005 (latest information available), the actuarial value of the plan's net assets available for OPEB approximated $11.1 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were $31.3 billion and $20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan ("HCPP") with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs, including the creation of a separate investment pool for health care assets. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Note 5 Property Taxes

Property taxes received by the Authority represent a special levy of .13 mills to fund the Authority's operations. The tax is levied against all real, public utility and tangible (used in business) property located in Cuyahoga County. The 2005 levy (collected in 2006) was based upon an assessed valuation of approximately $33.2 billion. The current levy continues through 2008.

Real property taxes are levied each January 1 on the assessed value listed as of the prior January 1. Assessed values are established by the County Auditor at 35% of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 88% of cost). Tangible personal property is assessed at 25% of the true value of the property.

Beginning in 2006, personal property taxes will be reduced 25% per year for each of the next four years through 2009 at which point the tax will be eliminated. Telephone companies will switch from being public utility to general business taxpayers beginning in 2007. Over the next five years beginning in 2007, telephone property will phase out and be eliminated from taxation in 2011. The revenue from the personal property tax will be reimbursed to the local governments beginning in 2006 from a new Commercial Activity Tax (CAT) collected by the State of Ohio. The Authority does not expect to suffer any significant negative impact in its tax receipts over the next five years as a result of this change.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the Authority. Taxes are payable to the County in two equal installments in January and July and, if not paid, become delinquent after December 31.

The County Auditor periodically remits to the Authority its portion of the taxes collected with final settlement in June and December for taxes payable in the first and second halves of the year, respectively.

Note 6 North Coast Harbor

Effective June 1, 1996, the Authority entered into an agreement known as the Common Area Maintenance ("CAM") Agreement with the City of Cleveland ("City"), Rock and Roll Hall of Fame and Museum and the Great Lakes Museum of Science, Environment and Technology ("Great Lakes Museum") pertaining to the City's waterfront area and related facilities known as North Coast Harbor ("NCH"). The purpose of the CAM Agreement is to provide for the ongoing operation, maintenance, insurance and security of the common areas of the NCH. Currently, the CAM participants are the Authority, the Great Lakes Science Center, the Rock and Roll Hall of Fame and Museum, the Cleveland Browns, the Goodtime III (a passenger touring boat), and the Steamship William G. Mather Museum. Common area maintenance is funded through the contributions of the CAM participants as defined under the CAM Agreement and the cash and investments held pursuant to the CAM Agreement are classified as restricted assets in the accompanying balance sheets.

Note 7 Cleveland Bulk Terminal

In March 1997, the Authority purchased a working dock facility, composed of approximately 45 acres of lakefront property and improvements, from Consolidated Rail Corporation (“Conrail”) for $6,150,000. The property, known as Cleveland Bulk Terminal, is a vessel-to-rail transfer facility.

The Authority has entered into a lease and operating agreement for the entire facility with Oglebay Norton Terminals, Inc., (“ONTI”), a subsidiary of Oglebay Norton Company, which extends through March 2017.

In 2001, the Authority issued $5,765,000 of Refunding Revenue Bonds, Series 2001 (“Refunding Bonds”), to advance refund the bonds that were issued to acquire the facility. As a result, the original bonds are considered defeased and were removed from the Authority’s balance sheet in 2001. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $582,550. This difference, reported in the accompanying balance sheet as a deduction from bonds payable, is being charged to operations through the year 2007 using the effective-interest method.

The Refunding Bonds are payable in quarterly installments through 2031 and are not general obligations of, and are not secured by, the full faith and credit of the Authority. The repayment terms of the Refunding Bonds enable the holders of the bonds to demand payment prior to maturity under certain circumstances. As a result, the Authority has executed a remarketing agreement and a letter of credit with a financial institution which requires the financial institution to use its best efforts to resell any portion of the bonds presented for payment prior to their scheduled maturity. The letter of credit, which expires on June 22, 2007, provides assurance that funds will be available through the financial institution to redeem any non-marketable bonds prior to their maturity. The repayment of a portion of the principal and interest due under the Refunding Bonds is guaranteed by Oglebay Norton Company.

The Refunding Bonds bear interest at a variable rate as determined by a remarketing agent based upon current transactions in comparable securities that enable the agent to remarket the notes at par. The interest rate on the Refunding Bonds was 5.43% on December 31, 2006. Two interest rate exchange agreements (“swaps”) are used to limit the Authority’s interest rate exposure on the Refunding Bonds. The swaps provide for interest to be received based on notional amounts at variable rates and for interest to be paid on the same notional amounts at fixed rates. The fixed interest rates do not change over the life of the agreements, which expire in fiscal 2007 and 2017. The variable rates are reset every quarter, are based on LIBOR, and are settled with the counterparties to the swaps at that time. These swap agreements are not used for trading purposes and effectively change the base interest rate exposure on the Refunding Bonds to a fixed rate of 5.81%, through March 1, 2007 and a fixed rate of 4.83% thereafter through March 2, 2017. The notional amount of the swaps at December 31, 2005 approximated the outstanding balance on the Refunding Bonds.

Note 7 Cleveland Bulk Terminal (continued)

The bonds outstanding at December 31, 2006, are payable as follows (assuming that the interest rate is able to be fixed at 4.83% after the expiration of the existing swaps in 2017):

Year	Principal	Interest	Total
2007	$ 105,000	$ 274,380	$ 379,380
2008	125,000	256,621	381,621
2009	140,000	250,592	390,592
2010	140,000	243,849	383,849
2011	140,000	236,784	376,784
2012-2016	850,000	1,073,957	1,923,957
2017-2021	1,080,000	843,997	1,923,997
2022-2026	1,365,000	552,349	1,917,349
2027-2031	1,540,000	182,825	1,722,825
Total payments	5,485,000	$ 3,915,354	$ 9,400,354
Unamortized loss on defeasance	(62,757)		
Total	$ 5,422,243		

The lease and operating agreement with ONTI provides for base rental payments along with certain additional rentals dependent upon the annual tonnage of freight handled at the facility. The future base rental payments required under the agreement, which is accounted for as an operating lease, are as follows:

Year	Amount
2007	$ 377,883
2008	282,783
2009	282,783
2010	282,783
2011	282,783
2012–2016	1,413,915
2017	60,814
Total	$ 2,983,744

During 2006, the Authority recorded $378,782 of rental income (on a straight-line basis) under the agreement. In addition, the cost and carrying amount of the Authority’s property subject to this lease at December 31, 2006 was $13.8 million and $13.0 million, respectively.

Note 8 Essroc Project (1997A Bonds)

In 1997, the Port Authority issued $3,975,000 of Development Revenue Bonds through the Port's Bond Fund Program. The bonds were issued tax-exempt, mature on May 15, 2017 and bear interest at 5.75% and 5.80% annually. Proceeds from the bonds were used for the purpose of improving Dock 20 by providing bulkheading and various transportation improvements to be used in the operation of the Port of Cleveland.

Debt service under the bonds is being paid primarily from the rental payments made to the Bond Fund trustee by Essroc Cement Corp. ("Essroc") in connection with a Ground Lease and Operating Agreement, pursuant to which Essroc leases certain real property and bulkheading located on Dock 20 from the Authority.

The bonds outstanding at December 31, 2006 are payable as follows:

Year	Principal	Interest	Total
2007	$ 80,000	$ 190,353	$ 270,353
2008	80,000	185,753	265,753
2009	90,000	181,009	271,009
2010	90,000	175,834	265,834
2011	100,000	170,515	270,515
2012-2016	575,000	760,719	1,335,719
2017-2021	775,000	570,186	1,345,186
2022-2026	1,025,000	315,665	1,340,665
2027-2031	500,000	14,500	514,500
Total payments	3,315,000	$ 2,564,534	$ 5,879,534
Unamortized original issue discount	(74,442)		
Total	$ 3,240,558		

Note 8 Essroc Project (1997A Bonds) (continued)

This property at Dock 20 had a cost and carrying amount of $3.5 million and $2.6 million, respectively, at December 31, 2007. Essroc has also agreed in the Ground Lease and Operating Agreement to pay the Authority certain land rentals and dockage and wharfage fees. The future minimum rental payments to be received under the Ground Lease and Operating Agreement, which is accounted for as an operating lease, are as follows:

Year	Amount
2007	$ 267,815
2008	263,808
2009	267,933
2010	263,321
2011	266,841
2012–2016	1,315,513
2017-2021	1,314,024
2022-2026	1,360,018
2027	44,867
Total	$ 5,364,140

As additional security, the Authority has agreed that the amount of Available Moneys (as defined in the Series 1997A Bonds) which can be used for the payment of principal and interest on the bonds due in any year will be at least 1.2 times the amount of such principal and interest. In addition, the Authority has agreed that it will not issue bonds or other indebtedness that have a claim, pledge or lien prior to that of the Series 1997A Bonds.

The Series 1997A Bonds are subject to redemption prior to maturity by the Authority.

Note 9 Port Capital Improvements Project (1999A Bonds)

In 1999, the Port Authority issued $5,230,000 in Development Revenue Bonds through the Port's Bond Fund Program. The bonds were issued tax-exempt, mature on May 15, 2019 and bear interest at rate of 5.375% per annum. The proceeds were used to: (a) finance a portion of the 1998 acquisition of 15 acres of land on the Old River ($1.5 million); (b) finance a portion of the 2000 improvements to Dock 22 ($1.5 million); (c) finance $945,000 of maritime maintenance and repair projects, including $634,000 for the 2001 rehabilitation of the Port's heavy lift crane; and (d) finance a part of the Authority's portion of the construction costs of a new Port entrance under West Third Street, providing direct access onto and off of State Route 2 ($1.3 million) ("Port Entrance Project").

Note 9 Port Capital Improvements Project (1999A Bonds) (continued)

Construction on the new $7.2 million Port Entrance Project began in January 2002 and was completed in 2003. A portion of the costs of the Port Entrance Project ($4.8 million) were funded by federal and state grants. The portion of the costs of the project that relate to improvements being made on property that is not owned by the Authority and for which the Authority is not responsible for ongoing maintenance were expensed as incurred.

The bonds outstanding at December 31, 2006 are payable as follows:

Year	Principal	Interest	Total
2007	$ 225,000	$ 206,131	$ 431,131
2008	235,000	193,903	428,903
2009	250,000	181,003	431,003
2010	265,000	167,431	432,431
2011	275,000	153,053	428,053
2012-2016	1,640,000	520,838	2,160,838
2017-2019	1,000,000	81,969	1,081,969
Total payments	3,890,000	$ 1,504,328	$ 5,394,328
Unamortized original issue discount	(11,647)		
Total	$ 3,878,353		

The debt service on the Series 1999A Bonds is paid by the Authority directly to the Bond Fund trustee.

Note 10 Tax Anticipation Notes, Series 2002

In December 2002, the Authority issued $6 million of Tax Anticipation Notes, Series 2002 (“2002 TANs”) to pay a portion of the costs for the removal, relocation and re-assembly of an ore loader from the Lorain Pellet Terminal to the Authority’s Cleveland Bulk Terminal.

The tax-exempt 2002 TANs, with an interest rate between 1.75%-2.50%, matured on November 15, 2006. The 2002 TANs were special obligations of the Authority and were to be paid only from the proceeds of the Authority’s .13 mill renewal property tax levy (see Note 5).

Note 11 State of Ohio 166 Loan

In January 2000, the Authority received the proceeds of a $725,000 State of Ohio 166 Loan to reimburse the Authority for a portion of the $2 million cost of the acquisition of approximately 15 acres of land adjacent to the Cuyahoga River, of which six acres were subsequently leased to a private business under a 25-year operating lease.

The loan bears interest at the rate of 4.25% per annum, and is payable in 180 consecutive monthly installments of $5,363 (including interest) through 2015. The loan is secured by an assignment of the six acre lease, and is payable from the operating funds of the Authority.

Year	Principal	Interest	Total
2007	$ 47,306	$ 17,047	$ 64,353
2008	49,233	15,120	64,353
2009	51,239	13,114	64,353
2010	53,326	11,027	64,353
2011	55,499	8,854	64,353
2012-2015	191,107	12,677	203,784
Total payments	$ 447,710	$ 77,839	$ 525,549

Changes in the Authority's long-term obligations for the year ended December 31, 2006 are as follows:

	Balance January 1, 2006*	Increase	Decrease	Balance December 31, 2006	Due Within One Year
Cleveland Bulk Terminals Project	$ 5,408,869	$ 73,374	$ (60,000)	$ 5,422,243	$ 105,000
Port Improvements 1999A	4,091,699	1,654	(215,000)	3,878,353	225,000
Essroc 1997A	3,305,006	5,552	(70,000)	3,240,558	80,000
Tax Anticipation Notes	2,040,712	-	(2,040,712)	-	-
State of Ohio 166 Loan	493,163	-	(45,453)	447,710	47,306
Total	$ 15,339,449	$ 80,580	$ (2,431,165)	$ 12,988,864	$ 457,306

** - Prior to restatement, 2005 debt balances included conduit debt, which was removed from the balance sheet as of December 31, 2005.*

Note 13 Other Leases

Authority as Lessee—The Authority leases various docks from the City of Cleveland (the "City"). On August 15, 2004, the Authority returned Dock 32 to the City and, in October 2004, the lease agreement was amended to reduce the Authority's annual rental payments from $500,000 to $400,000 through the expiration of the lease in December 2028. Under the amended lease, the City has the right to remove Dock 30, and a portion of Dock 28 from the lease upon five years written notice. If either of these docks were returned to the City, the annual rental payments required under the lease would be reduced based on the number of square feet eliminated from the lease. The maximum reduction in the annual lease payments would aggregate $150,000 if both of these docks were returned to the City. Rental expense in 2006 under the operating lease with the City was $400,016.

The Authority has leased office space at One Cleveland Center since January 2000. Pursuant to a lease agreement with MRI Asset Management, L.L.C., the Authority leased 8,798 square feet of office space at a base rental expense of $175,287 for 2004. In early 2005, the Authority amended the lease agreement to expand into an adjacent 1,929 square feet of office space and to extend the lease to January 14, 2009. The annual future base rentals (including the 2005 amendment) are $198,000 in 2007 and $209,000 in 2008.

Authority as Lessor—The Authority subleases a portion of the property leased from the City of Cleveland. Total rental income from these operating leases, which expire in 2007, amounted to $381,295 for the year ended December 31, 2006. The future rentals the Authority is scheduled to receive under the leases total $95,325, all of which are due in 2007.

The Authority is also the lessor of certain real property under operating leases expiring in 2007. Total rental income from these leases amounted to $516,061 for the year ended December 31, 2006. The future rentals the Authority is scheduled to receive under the leases total $129,015, all of which are due in 2007.

Note 14 Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Commercial insurance has been obtained to cover damage or destruction to the Authority's property and for public liability, personal injury and third-party property damage claims.

Employee health care benefits are provided under a group insurance arrangement and the Authority is insured through the State of Ohio for workers' compensation benefits.

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

Note 15 No-Commitment Debt

As stated in Note 1, the Authority has issued certain limited obligation revenue bonds and notes, primarily through two different programs; the Common Bond Fund Program and other Conduit Financings.

Common Bond Fund Program: The Authority has established a Common Bond Fund Program (the "Program" or "Bond Fund") to provide long-term, fixed interest rate financing of $1 million to $10 million to credit worthy businesses and governmental organizations for owner-occupied industrial, commercial, and governmental projects. Port of Cleveland Bond Fund Development Revenue Bonds are issued in accordance with the Ohio Revised Code and a Trust Indenture dated November 1, 1997 between the Authority and a local financial institution. The Common Bond Fund Program is managed by the Port Authority; however, these obligations are not secured by the faith and credit of the Port Authority.

The Common Bond Fund Program includes a system of cash reserves used to collateralize the bonds issued under the Program. All borrowers are required to deposit an amount equal to ten percent of the proceeds of the bonds into a Primary Reserve Fund for each issuance, which secures the specific obligation to which it relates. If the Program Reserve and letter of credit discussed below are exhausted, the Primary Reserve Fund amounts can be used to secure repayment of other outstanding obligations issued under the Program.

The 1997A and 1999A bonds issued through the Common Bond Fund Program are reflected on the Port's balance sheet as the Authority is ultimately liable for both bond issuances. Additionally, approximately $100,000 (Primary Reserve Fund) and $4.0 million (Program Reserve Fund) in restricted cash and investments are also shown on the Port's balance sheet, which primarily represents the Port's initial investment in the Program and associated interest earnings. In the event of a default, any utilization of either the Primary Reserve Fund or the Program Reserve Fund would result in a charge to the Port Authority's earnings.

Under the Program, debt service requirements on each bond issue are secured by a pledge of amounts to be received pursuant to loan, lease, or other agreements executed in connection with the projects. The timing and amount of payments due from the borrowers and paid directly to the Bond Fund trustee under the various agreements approximate the debt service requirements of the bonds, plus a small administrative charge.

The primary reserve deposits, which totaled $9.9 million December 31, 2006, consist of cash, government obligations, acceptable letters of credit or other instruments allowed under the Indenture. A trustee holds these funds during the term the bonds are outstanding, with investment income earned on the Primary Reserve Fund amounts returned to the borrowers at their discretion. The balance in the Primary Reserve Fund established for each debt issuance is utilized to fund the final principal payment when the related debt issuance is completely repaid. In addition to the primary reserves, a Program Reserve is maintained to collateralize all of the obligations outstanding under the Program. The Program Reserve at December 31, 2006 was composed of a $4 million cash reserve and a $9 million irrevocable, nonrecourse letter of credit from a financial institution, which expires on March 1, 2014.

Note 15 No-Commitment Debt (continued)

The remaining issuances through the Common Bond Fund Program are reflected in the statement of fiduciary net assets.

At December 31, 2006, one of the issuances through the Common Bond Fund Program was from an organization that has negative working capital and has recently been experiencing significant operating losses. On December 1, 2006, the organization made an unscheduled draw on a $300,000 credit enhancement which helped secure the bonds. The draw was replenished on December 13, 2006. A second unscheduled draw occurred on May 1, 2007. In addition to the $300,000 credit enhancement and the Primary Reserve Fund, the bonds are secured by a first mortgage on the property that was recently improved with the proceeds of the Bond Fund financing. It is reasonably possible that an anticipated improvement in the borrower's operations may not occur and the value of the collateral may not be sufficient to cover any unpaid debt amounts, in which case a portion of the debt may not be collected. Although a charge to the Authority's operating results may occur in the event all or a portion of the debt is deemed uncollectible, the Authority believes that the Bond Fund Program's system of cash reserves would be sufficient to insure the timely repayment of the related bonds issued under the Program.

Conduit Financings: Conduit Financings represent bonds and notes issued for project financings which are collateralized by the related amounts to be received under leases, loan agreements and tax-increment financing arrangements with local governments.

None of the debt obligations listed from the above financing sources is secured by the credit of the Port Authority.

The Port Authority acts as an agent for the Common Bond Fund Program and certain Conduit Financing obligations, and as such the related assets and liabilities to the extent of asset balances are reported in the statement of fiduciary net assets. The aggregate amount of outstanding debt for the Common Bond Fund Program was $80,665,000 and Conduit Financing Obligations was $462,544,127 as of December 31, 2006.

In both programs, the debt is secured by the property financed, is payable solely from the payments received by the trustee from the borrowers or other sources specified in the related agreements. These obligations are considered "conduit debt obligations" under Interpretation No. 2 of the Governmental Accounting Standards Board, *Disclosure of Conduit Debt Obligations*. Because the Authority has no obligation to repay the debt beyond the specific third party revenue sources pledged under the debt agreements, the obligations are not recorded on the Authority's balance sheets.

Note 16 New Market Tax Credit Program

On September 29, 2003, the Authority entered into a Cooperative Agreement with certain third parties, including Northeast Ohio Development Fund LLC ("NEODF"), setting forth various understandings with respect to NEODF obtaining an allocation of tax credits from the federal government under the "New Market Tax Credits Program". The Cooperative Agreement sets forth the procedures for administering the credits and providing project loans with respect to that program. With the assistance of the Authority, NEODF was able to obtain an allocation of new market tax credits in 2004. These credits are to be deployed as investments in qualifying low income community businesses.

NEODF may utilize the credits provided it complies with terms and conditions of the Cooperative Agreement and the New Market Tax Credit Program. The Port Authority has no obligation for compliance under the New Market Tax Credit Program, but receives certain fees and other monies from investments made by NEODF and related organizations under the program. The Port Authority did not recognize any income associated with the New Market Tax Credit Program in 2006.

Note 17 Flats East Bank Project

The Authority, in collaboration with the City of Cleveland, Cuyahoga County, the State of Ohio, the Northeast Ohio Regional Sewer District, the Cleveland Municipal School District, Greater Cleveland Partnership and others has been working for the past several years with Scott Wolstein, through Flats East Development LLC ("Developer"), on a major redevelopment project in the City of Cleveland known as the Flats East Bank Project. This is an approximately $230,000,000 redevelopment of the East Bank of the Flats in Cleveland, Ohio which will include a residential and commercial development contemplated to include for-sale and rental residential units, supporting retail and commercial development, parking facilities and other public improvements including streets, sidewalks, street lights, public utilities, a promenade along the Cuyahoga River, public park, marina and other public spaces (the "Project").

In order to facilitate the implementation of the property acquisition phase of the Project, in November 2005, the Authority entered into an Agreement for Acquisition, Disposition and Redevelopment of Property ("Acquisition Agreement") with the Developer. The Acquisition Agreement provides that the Port Authority obtain appropriate appraisals, title and other relevant information and negotiate with the various landowners for the purchase of the property to be acquired for the Project which the Developer has not acquired. The Developer deposited a letter of credit in escrow with a title company, for the benefit of the Port Authority, for the appraised value of the properties to be acquired. If the Authority is unable to negotiate the purchase of the needed properties, the Port Authority commenced eminent domain proceedings to acquire the property. On May 23, 2006, the first of such actions was filed.

Note 17 Flats East Bank Project (continued)

Since there are federal funds allocated to the Project, the Developer and the Authority are required to comply with federal law, including the Uniform Relocation and Real Property Acquisition Policies Act of 1970 (the "Relocation Act"). In order to comply with the Relocation Act, the Authority is required to follow certain guidelines relating to property acquisition which include the retention of a relocation consultant and an appraiser, which it has done. All acquisition costs, including relocation experts and appraisers, are to be paid by the Developer pursuant to the Acquisition Agreement.

Additionally, the City of Cleveland, the Port Authority and the Developer negotiated and executed a development agreement, which fully sets forth the details of the Project and its construction, the financing for the public infrastructure and certain other Project improvements, as well as other project requirements.

In 2006, the Authority paid $1.5 million in expenses related to the Flats East Bank project, all of which was paid by the Developer. Additionally, the Authority had $631,000 of accounts payable associated with the transaction and booked a corresponding receivable that was due from the Developer as of December 31, 2006.

In 2006, the Port Authority negotiated agreements to purchase three properties from Flats East Bank property owners with title transferring to the Developer immediately after the Port's acquisition. Settlement negotiations and court proceedings with remaining property owners continued in 2007. As of June 22, 2007, all but one property owner group has reached an agreement in principal to settle. The total settlements to be paid, and cost of litigation, remains the responsibility of the Developer.

Note 18 Subsequent Events

On March 1, 2007, the Port Authority issued $5,470,000 in Multi-Mode Variable Rate Refunding Revenue Bonds, Series 2007 in relation to the Cleveland Bulk Terminal (CBT) project. The proceeds of the bonds were used to refund the Port's Taxable Variable Rate Refunding Bonds, Series 2001. The Series 2007 Bonds are tax-exempt, whereas the 2001 Bonds were taxable, as those proceeds were to defease bonds issued in 1997 used to acquire the Cleveland Bulk Terminal. The Bonds are secured by an irrevocable direct pay letter of credit, which expires on March 1, 2012, with a local financial institution.

Note 19 Segment Information

The following financial information represents identifiable activities in which the Port Authority separates their business activities. These activities include the following: (1) "Port Activities", which refers herein to the Authority's core maritime and development finance operations including the cost of the administration of the Port's Operating Groups (Maritime, Development Finance, Strategic Development, and Administration) and the fees generated by such groups (2) "North Coast Harbor", through which the Port Authority administers the Common Area Maintenance ("CAM") Agreement with the City of Cleveland. The CAM provides the ongoing operation, maintenance and security of the common areas of North Coast Harbor.

Cleveland-Cuyahoga County Port Authority

Condensed Balance Sheet Information by Activity

December 31, 2006

	Port Activities	North Coast Harbor	Total
Assets			
Current assets	$ 13,937,539	$ -	$ 13,937,539
Capital assets	43,658,795	-	43,658,795
Restricted and other assets	6,795,432	260,757	7,056,189
Total Assets	$ 64,391,766	$ 260,757	$ 64,652,523
Liabilities and Net Assets			
Liabilities:			
Current liabilities	$ 5,034,295	$ -	$ 5,034,295
Current liabilities payable from restricted assets	72,386	15,385	87,771
Other liabilities	13,791,745	12,596	13,804,341
Total liabilities	18,898,426	27,981	18,926,407
Net Assets:			
Invested in capital assets, net of related debt	30,669,932	-	30,669,932
Restricted for debt service	5,462,858	-	5,462,858
Restricted for capital improvements and events	-	232,776	232,776
Unrestricted	9,360,550	-	9,360,550
Total net assets	45,493,340	232,776	45,726,116
Total Liabilities and Net Assets	$ 64,391,766	$ 260,757	$ 64,652,523

Cleveland-Cuyahoga County Port Authority

Condensed Revenue and Expense Information by Activity

For the Year Ended December 31, 2006

	Port Activities	North Coast Harbor	Total
Operating revenues	$ 4,848,538	$ 615,652	$ 5,464,190
Operating expenses	6,707,735	432,687	7,140,422
Operating income (loss)	(1,859,197)	182,965	(1,676,232)
Nonoperating revenues—net	3,256,439	4,981	3,261,420
Transfers between activities	10,101	(10,101)	-
Change in net assets	$ 1,407,343	$ 177,845	$ 1,585,188

Cleveland-Cuyahoga County Port Authority

Condensed Cash Flows Information by Activity

For the Year Ended December 31, 2006

	Port Activities	North Coast Harbor	Total
Net cash flows (used in) provided by operating activities	$ (1,031,915)	$ 44,274	$ (987,641)
Net cash flows provided by noncapital financing activities	3,323,548	-	3,323,548
Net cash flows used by capital and related financing activities	(3,575,953)	(10,101)	(3,586,054)
Net cash flows provided by investing activities	1,013,058	4,981	1,018,039
Net (decrease) increase in cash and cash equivalents	(271,262)	39,154	(232,108)
Cash and cash equivalents—beginning of year	2,726,585	183,200	2,909,785
Cash and cash equivalents—end of year	$ 2,455,323	$ 222,354	$ 2,677,677

Cleveland-Cuyahoga County Port Authority

Common Bond Funds

For the Year Ended December 31, 2006

The following are the approximate balances held and the principal amount of outstanding Common Fund Bonds as of December 31, 2006:

SERIES	Contracting Party	Original Bond Amount	Outstanding Principal Balance	Reserve Balance	Primary Final Maturity
1997A	Essroc /Port Authority (1)	$ 3,795,000	$ 3,315,000	$ 366,641	5/15/2027
1998A	Jergens	5,720,000	4,060,000	572,000	5/15/2018
1998B	NOACA	3,345,000	2,410,000	324,472	5/15/2018
1999A	Port Authority (1)	5,230,000	3,890,000	520,385	5/15/2019
1999B	Universal Heat	1,480,000	845,000	148,000	11/15/2014
2000B	RITA	5,000,000	2,815,000	500,000	11/15/2010
2001A	CEOGC	4,440,000	3,355,000	444,000	5/15/2016
2001B	Cleveland Bottle	1,500,000	1,290,000	150,000	11/15/2021
2002A	CATS	2,090,000	1,845,000	209,000	5/15/2022
2002C	CCH	5,130,000	4,590,000	513,000	5/15/2022
2003A	Centaur/Heidtman Steel	4,250,000	3,290,000	425,000	5/15/2013
2004A	Luigino's	5,000,000	4,565,000	500,000	5/15/2019
2004B	City of Cleveland	2,965,000	2,395,000	296,500	5/15/2030
2004C	Tru-Fab	1,060,000	990,000	106,000	11/15/2023
2004D	Garfield Heights	8,850,000	8,850,000	885,000	5/15/2023
2004E	Myers University	5,725,000	5,725,000	572,500	5/15/2025
2005A	Goodyear	4,125,000	3,830,000	412,500	5/15/2014
2005B	Fairmount	3,375,000	3,375,000	337,500	5/15/2025
2005C	Avery Dennison	6,000,000	6,000,000	600,000	11/15/2015
2005D	Columbia National Group	6,020,000	5,875,000	602,000	5/15/2020
2006A	Cleveland Cavaliers	9,500,000	9,500,000	950,000	5/15/2026
2006B	City of Perrysburg	5,060,000	5,060,000	506,000	11/15/2035
Total		$ 99,660,000	$ 87,870,000	$ 9,940,498	

Summary of Reserves:	
Primary Reserve Funds	$ 9,940,498
Program Development Fund (2,3)	147,918
Program Reserve (3)	4,000,657
Program Reserve LOC	9,000,000
Total Reserve Funds	$ 23,089,073
Total Reserves / Outstanding Bonds	26.28%

(1) Assets and liabilities associated with these issuances are reflected on the Port Authority's Balance Sheet
(2) One-half the monies in the Program Development Fund are transferred to the Authority for its general purposes in June and December of each year as long as no deficiency exists.
(3) Balances in the Program Development Fund and the Program Reserve are shown as restricted cash and investments on the Authority's Balance Sheet.

Cleveland-Cuyahoga County Port Authority

Non-Bond Fund Issuances

For the Year Ended December 31, 2006

The following are the listing of non-Bond Fund debt issuances undertaken by the Authority for which there is still principal outstanding as of December 31,2006:

	Non-Bond Fund Debt Issuances	Year	Type of Debt Issued	Original Issuance	Principal Outstanding
1	Applied Industrial Technologies	1996	Revenue Bonds	$ 18,835,000	$ 15,069,266
2	Metro Health	1999	Revenue Notes (Public Improvement)	10,973,006	10,973,006
3	University Square	2001	Revenue Bonds (Special Assessment)	40,600,000	40,600,000
4	TRW Automotive	2003	Governmental Loan	650,000	435,299
5	Carnegie/96th Research Building LLC	2003	Revenue Bonds	32,000,000	31,600,000
6	Euclid/93rd Garage and Office LLC	2003	Revenue Bonds	48,415,000	46,795,000
7	Rock and Roll Hall of Fame	2004	Refunding Revenue Bonds	18,555,000	13,635,000
8	OSF Properties	2004	Taxable Development Revenue Bonds	16,000,000	15,560,000
9	Laurel School	2004	Variable Rate Educational Facility Revenue Bonds	10,000,000	9,435,000
10	City of Brecksville	2004	Tax-Exempt Revenue Bonds	2,195,000	1,860,000
11	RITA (2)	2004	Development Revenue Bonds	20,990,000	20,540,000
12	Swagelok	2004	Taxable Development Revenue Bonds Series	21,000,000	9,570,306
13	Marine Mechanical	2004	Taxable Economic Development Lease Revenue Bond	8,470,000	8,401,250
14	Playhouse Square Foundation	2004	Variable Rate Cultural Facility Revenue Bonds	18,000,000	15,500,000
15	Euclid Avenue Housing Corp.	2005	Student Housing Facility Revenue Bonds	34,385,000	34,385,000
16	Avery Dennison Corp.	2005	Taxable Development Lease Revenue Bonds	39,785,000	39,785,000
17	Cleveland Museum of Art	2005	Cultural Facility Revenue Bonds	90,000,000	90,000,000
18	Judson	2005	Development Revenue Refunding Bonds	31,500,000	31,035,000
19	Park Synagogue	2006	Multi-Mode Variable Rate Revenue Bonds	9,995,000	9,995,000
20	St.Clarence-GEAC, LLC Project	2006	Senior Housing Revenue Bonds	17,120,000	17,120,000
21	St.Clarence-GEAC, LLC Project	2006	Taxable Senior Housing Revenue Bonds	250,000	250,000
			Total	$ 489,718,006	$ 462,544,127

Stadium Financing

During 1996, the Board of Directors of the Authority, by motion, declared its intent to participate in certificates of participation financing to be undertaken by the City of Cleveland (the "City") for the financing of the construction of a new football stadium. A Cooperative Agreement between the Authority, Cuyahoga County, the National Football League and the City was executed which set forth an agreement in relation to the financing and building of a new football stadium. Under this Cooperative Agreement, the Authority agreed to: 1) enter into a ground lease with the City for the stadium property; 2) lease the stadium back to the City; and 3) assign certain of its rights under the leases to a trustee to enable the issuance of certificates of participation in the City's payments of rent to the trustee pursuant to the leases. On March 7, 1997, the Board of Directors of the Authority adopted a resolution authorizing and approving the execution, delivery and performance of certain documents in connection with the financing, including the ground lease, lease and assignment. During 1997 and 1999, City of Cleveland certificates of participation in the amounts of $139.3 million and $20.5 million, respectively, were sold by the trustee.

Simultaneously with the issuance of the certificates of participation, the Authority assigned to the trustee, with concurrence of the City, substantially all of its rights under the ground lease and leaseback to the City. The certificates of participation do not represent obligations of the Authority and the Authority has no significant rights or responsibilities with respect to the leases. Accordingly, no amounts have been recorded in the accompanying financial statements with respect to this transaction.

In February 2003, the City entered into a swaption with an investment bank in which the bank paid for the right to enter into a floating-to-fixed interest rate swap 90 days prior to the bonds' call date (November 15, 2007). If the bank exercises its option, the City will issue variable rate bonds to refund the outstanding Series 1997 Certificates of Participation. Because the Port Authority is a party to the Trust Indenture and the leases, its consent to this refunding structure was required and granted. This transaction was non-recourse to the Port Authority and the Port Authority maintains the protections it received in the original transaction.

Ciuni & Panichi
CPAs and Business Advisors

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*

Board of Directors
Cleveland-Cuyahoga County Port Authority

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Cleveland-Cuyahoga County Port Authority (the "Authority") as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 25, 2007, wherein we noted the Authority adopted *Government Accounting Standards Board Statements No. 46 and 47*. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Board of Directors
Cleveland-Cuyahoga County Port Authority

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*.

We noted certain matters that we have reported to management of Cleveland-Cuyahoga County Port Authority, in a separate letter dated June 25, 2007.

This report is intended solely for the information and use of management, the Board of Directors, and the Auditor of State's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Ciuni & Panichi, Inc.

Cleveland, Ohio
June 25, 2007

Mary Taylor, CPA
Auditor of State

CLEVELAND CUYAHOGA PORT AUTHORITY

CUYAHOGA 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 7, 2007

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