Port of Greater Cincinnati Development Authority

Accountants' Report and Financial Statements

December 31, 2006 and 2005

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

We have reviewed the *Independent Accountants' Report* of the Port of Greater Cincinnati Development Corporation, Hamilton County, prepared by BKD, LLP, 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 Port of Greater Cincinnati Development Corporation is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 9, 2007

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Port of Greater Cincinnati Development Authority
December 31, 2006 and 2005

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Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of the Port of Greater Cincinnati Development Authority as of and for the years ended December 31, 2006 and 2005 as listed in the table of contents. These financial statements are the responsibility of the Port of Greater Cincinnati Development Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Port of Greater Cincinnati Development Authority as of December 31, 2006 and 2005, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2007, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

August 21, 2007

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2006, 2005 and 2004

INTRODUCTION

As management of the Port of Greater Cincinnati Development Authority ("Port Authority"), we offer readers of the Port Authority's financial statements this narrative overview and analysis of the financial activities of the Port Authority for the fiscal years ended December 31, 2006, 2005 and 2004. Please read this information in conjunction with the Port Authority's basic financial statements and footnotes that begin on page 11.

ORGANIZATIONAL HISTORY

In December 2000, the City of Cincinnati, Ohio and Hamilton County, Ohio collaborated to create the Port of Greater Cincinnati Development Authority. This new entity replaced an existing port authority that the two governments had formed earlier to spearhead the redevelopment of brownfield properties. The newly created Port Authority was given a dual mission of overseeing Cincinnati's Central Riverfront Project envisioned by the City, the County, and the Riverfront Advisors Commission, as well as continuing the brownfield redevelopment activities of its predecessor agency.

MISSION

Through May 2005, the core mission of the Port Authority remained two-fold:

- To facilitate the implementation of the Central Riverfront Urban Design Master Plan for the mixed-use redevelopment of Cincinnati's Central Riverfront Area, commonly referred to as "The Banks."

- To facilitate the redevelopment of properties in Hamilton County known as brownfields, which are environmentally contaminated or perceived to be contaminated and are now vacant, abandoned, idle, or underutilized due to real or perceived contamination.

In early June 2005, the Hamilton County Commissioners determined that Hamilton County would proceed with the selection of the developer for The Banks project, as well as manage the implementation of the public and private sector improvements within The Banks Development Area. In response to the County's announcement, the Port Authority ceased activities related to The Banks project. Therefore, through 2006, the Port Authority focused its resources (human and financial capital) on the remediation and redevelopment of brownfield properties, as well as economic development financings.

PORT AUTHORITY POWERS

Historically, port authorities were created to conduct maritime activities, and later airport activities. But in Ohio, port authorities have evolved as an economic development tool. As independent units of government, Ohio port authorities may conduct the traditional waterborne and air transportation activities, as well as own property and provide financing for local economic development initiatives. Ohio law defines the "authorized purposes" of a port authority as "activities that enhance, foster, aid, provide, or promote transportation, economic development, housing, recreation, education, governmental operations, culture, or research within the jurisdiction of the port authority" and "activities authorized by Sections 13 and 16 of Article VIII, Ohio Constitution."

The referenced constitutional provisions permit a broad range of activities that assist the private sector with respect to economic and housing development and redevelopment. Ohio law generally permits port authorities to finance any "port authority facility" with revenue bonds, and it defines a port authority facility as property "owned, leased, or otherwise controlled or financed by a port authority and related to, useful for, or in furtherance of, one or more authorized purposes." These broad powers are complemented by expansive authority to enter into cooperative relationships with one or more other political subdivisions to undertake major development projects jointly.

PORT AUTHORITY TOOLS

Special Financings, Projects, and Programs

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

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

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

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

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

Common Bond Fund Programs: These programs provide credit enhancements and long-term, fixed-rate loans that make it possible for companies to access capital markets that they might not otherwise be able to access. Common bond funds are a tool that supplements the financing options available to small- and medium-sized companies within the community. The Port Authority has not yet utilized any such program through 2006 although it has access to the Ohio Enterprise Bond Fund Program and, through cooperative agreements, existing common bond fund programs of other Ohio port authorities. In addition, if justified by demand, the Port Authority could seek capital to fund such a program sponsored by the Port Authority.

Lease Financing Projects: Port authorities may provide assistance through issuance of revenue bonds to finance the acquisition, construction, and leasing of a project to provide financial and accounting advantages to non-governmental users. Lease financings have been used to convey a variety of incentives, such as sales tax exemption on building materials incorporated into buildings owned by a port authority and accounting advantages to the lessee/user of the project. Lease financings have typically been undertaken by port authorities in the categories of capital lease, operating lease, or synthetic lease. The Port Authority has provided capital lease financing.

Property Ownership: Ohio port authorities have broad powers to acquire, construct, and own real or personal property, or any combination of real or personal property, to further any authorized purpose. This includes the power to own and improve property if doing so helps to create or preserve jobs and economic or business development opportunities. This is especially helpful when a property has negative value, as in the case of a brownfield site where barriers such as liens and environmental issues are impediments to redevelopment. Further, port authorities may sell, lease (to or from others and with or without purchase options), and convey other interests in real or personal property, improved or unimproved as well. The Port Authority has owned and improved property.

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

2006 PROJECT SUMMARY

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

Summary of Grant Funds – Brownfield Projects

The intended result of the Port Authority's involvement in City of Cincinnati and Hamilton County area brownfield redevelopment is to recycle area land resources back into productive reuse. To achieve this result, the Port Authority responded to the development needs of the private sector by creating public-private partnerships in support of the redevelopment of environmentally challenged properties. The Port Authority played a variety of roles in the redevelopment of brownfield properties including property owner, grant recipient, and revenue bond provider. With regard to the grant funding source listed below (Clean Ohio Fund Program), as this is a grant reimbursement program, grant funds would not be received by the Port Authority until the public improvements described in the grant applications had been undertaken.

Project Name	Clean Ohio Funds
Cleanups/Assessments Completed During 2004 Through 2006	
3603 East Kemper Road, Sharonville, Ohio	$ 1,500,000
5700 Center Hill Road, Cincinnati, Ohio	349,500
3333 Vine Street, Cincinnati, Ohio	496,151
400 Pike Street, Cincinnati, Ohio	845,500
4000 Red Bank Road, Fairfax, Ohio	3,000,000
Subtotal	6,191,151
On-going Cleanups Awarded During 2005	
5025 Carthage Avenue, Norwood, Ohio	750,000
320 S. Anthony Wayne Avenue, Lockland, Ohio	2,882,130
Subtotal	3,632,130
On going Cleanups Awarded During 2006	
4101 Spring Grove Avenue, Cincinnati, Ohio	750,000
Total	$ 10,573,281

Summary of Bond Financings

In support of economic development projects within the City of Cincinnati and Hamilton County, the Port Authority considers and, with Board approval, issues revenue bonds. No financings were closed in 2005. As noted below, three financings were closed in 2006 and two financings were closed in 2004.

Date of Issue	Project Name	Bond Amount
January 2006	Cincinnati Zoo Conduit Bonds	$ 750,000
March 2006	Sisters of Mercy Conduit Bonds	5,780,000
October 2006	Springdale Pictoria Public Parking/Infrastructure Financing	10,000,000
	Total	$ 16,530,000

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

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2006, 2005 and 2004

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Port Authority as of December 31, 2006, 2005, and 2004:

	2006	2005	2004
Assets:			
Current assets – unrestricted	$ 856,070	$ 782,087	$ 1,399,038
Current assets – restricted	1,547,091	1,144,536	1,144,536
Noncurrent assets:			
Capital assets, net	23,951,439	14,208,163	14,563,226
Other noncurrent assets	3,925,164	1,162,596	2,352,111
Total assets	$ 30,279,764	$ 17,297,382	$ 19,458,911
Liabilities:			
Current liabilities – payable from unrestricted	$ 42,230	$ 27,044	$ 314,403
Current liabilities – payable from restricted	447,595	381,512	381,511
Noncurrent liabilities	28,000,000	18,000,000	18,000,000
Total liabilities	28,489,825	18,408,556	18,695,914
Net assets:			
Invested in capital assets, net of related debt	1,308,472	(1,484,705)	59,873
Unrestricted	481,467	373,531	703,124
Total net assets (deficit)	1,789,939	(1,111,174)	762,997
Total liabilities and net assets	$ 30,279,764	$ 17,297,382	$ 19,458,911

2006, 2005, and 2004 Comparative Balance Sheets

Current assets - unrestricted

The $617,000 decrease in unrestricted current assets in 2005 is primarily due to the sale of the East Kemper Road project land for $783,000 in 2005, partially offset by an increase in cash from the prior year.

Current assets - restricted

The $402,000 increase in 2006 represents investments of current assets derived from the $10 million Springdale Pictoria 2006 revenue bond financing.

Capital assets, net

The increase in 2006 results from capital additions of $10,143,000 from the Springdale Pictoria 2006 public infrastructure financing. The 2005 decrease in net capital assets is primarily due to depreciation of capital assets derived from revenue bond financings.

Other noncurrent assets

The increase of $2,762,000 results from the Springdale 2006 revenue bond financing investments of $1,681,000 and a Cincinnati Mills funded reserve of $1,490,000, offset by other bond activity. The $1,190,000 decrease in other noncurrent assets in 2005 is primarily due to a $1,083,000 decrease in non-current investments used for interest and other payments related to the Cincinnati Mills 2004 revenue bond financing.

Current liabilities - payable from unrestricted

The $287,000 decrease in current liabilities in 2005 results from the timing of vendor invoices received for professional services.

Current liabilities - payable from restricted

The small increase in 2006 results from the Springdale Pictoria 2006 revenue bond financing.

Noncurrent liabilities

The $10,000,000 increase in 2006 represents the principal amount of the Springdale Pictoria 2006 revenue bond financing. The $18,000,000 in 2005 and 2004 represents the principal amount of Cincinnati Mills 2004 revenue bonds.

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2006, 2005 and 2004

CONDENSED REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION

Provided below is information regarding condensed revenues, expenses, and changes in net assets for the years ended December 31, 2006, 2005, and 2004:

	2006	2005	2004
Operating revenues			
Public funding	$ 350,000	$ 460,000	$ 700,000
Charges for project services	536,941	224,825	402,742
Other income	27,862	1,975	3,989
Total operating revenues	914,803	686,800	1,106,731
Operating expenses			
Direct project services	2,324,546	1,902,295	801,916
General and administrative	430,035	720,021	619,179
Total operating expenses	2,754,581	2,622,316	1,421,095
Operating loss	(1,839,778)	(1,935,516)	(314,364)
Non-operating income (loss)			
Grant receipts	3,262,663	2,596,518	1,003,556
Grant expenditures	(3,262,663)	(2,596,518)	(678,427)
Bond service payments	4,647,756	—	—
Investment income	93,135	61,345	(54,168)
Total non-operating income	4,740,891	61,345	270,961
Increase (decrease) in net assets	2,901,113	(1,874,171)	(43,403)
Net assets – beginning of year	(1,111,174)	762,997	806,400
Net assets – end of year	$ 1,789,939	$ (1,111,174)	$ 762,997

Operating revenues

Operating revenues are segmented into two major categories, public funding and project services. Public funding revenue from the City of Cincinnati, Ohio and Hamilton County, Ohio typically provides the majority of operating revenue. Project services revenue stems from brownfield, financing, and other projects pursued by the Port Authority.

The $228,000 increase in 2006 is primarily due to increased activity of project services from brownfield projects and revenue bond closing financing fees of $138,000 and $174,000, respectively, which was offset by a $110,000 decrease in public funding.

Operating revenues decreased in 2005 by $420,000. Fees for project services decreased $178,000, primarily from revenue bond closing receipts of $220,000 in 2004, and a decrease in public funding from the City of Cincinnati and Hamilton County of $240,000 in 2005. These decreases were offset by a $40,000 increase in project fees and other revenues.

Port of Greater Cincinnati Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2006, 2005 and 2004

Operating expenses

The operating expenses include charges for project services, and compensation and related costs of all staff.

In 2006, operating expenses increased slightly by $132,000 due to the addition of greater internal and external resources to meet increased Port Authority activity.

Operating expenses increased in 2005 by $1,201,000 from the prior year. The primary reasons for the 2005 fluctuation are:

- Depreciation and amortization increased $294,000 primarily due to capital assets related to the Cincinnati Mills 2004 revenue bond financing.

- Interest increased $954,000 as a result of the Cincinnati Mills 2004 revenue bond financing.

Operating loss

The explanation for the 2006 decrease in operating loss of $96,000 and the increase in operating loss of $1,621,000 in 2005 are reflected above.

Non-operating revenues and expenses

Non-operating revenues and expenses consist of grant revenues received and subsequently passed-through to third parties, service payments, special assessments, or other revenues assigned by and received from other public bodies to support port authority revenue bonds, and certain post-closing bond reserves established for future debt service.

The increase in 2006 of $4,680,000 is primarily due to the Cincinnati Mills 2004 and Springdale Pictoria 2006 financings as follows:

- The Cincinnati Mills Trustee received $910,000 of service payments from the City of Forest Park that will be used for future payments of principal and interest. Additionally, the developer elected to close out the bank letter of credit initially used to fund the required bond reserve fund and was therefore required to provide $1,490,000 directly to the Trustee.

- The Springdale Trustee received $2,248,000 of service payments from the City of Springdale that are derived from the then existing tax increment financing supported by this project.

Net non-operating income decreased $210,000 in 2005. The decrease primarily resulted from the capitalization of $408,000 in land improvements on the East Kemper Road project in 2004, which was partially offset by an increase in the 2005 investment income due to the 2004 Cincinnati Mills bond financing.

Changes in net assets

In 2006, net assets increased $2,901,000 primarily related to the effects of the Springdale Pictoria 2006 revenue bond financing and the funding of the Cincinnati Mills 2004 bond reserve account with cash to replace the previous letter of credit. Revenues (all non-operating) net of expenses for the Cincinnati Mills transaction for 2006 were $1,180,000. Revenues (all non-operating) net of expenses for the Springdale Pictoria transaction for 2006 were $2,123,000. Other revenues net of expenses decreased net assets $402,000.

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

Revenues, net of Port Authority administrative fees, are expected to offset expenses over the life of the revenue bonds.

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

Brownfield project related revenues and expenses are expected to decrease in 2007 due to the completion of some projects. As described on pages 4 and 5 of this document, the Port Authority's brownfield projects include: 3603 East Kemper Road, 5700 Center Hill Road, 3333 Vine Street, 400 Pike Street, 4000 Red Bank Road, 5025 Carthage Avenue, 320 South Anthony Wayne Avenue, and 4101 Spring Grove Avenue projects. In addition, there are other brownfield redevelopment projects in the "pipeline." Though the Port Authority earns modest fees from the developers and end users involved in its brownfield projects, it is not anticipated that these fees can support the brownfield-related activities of the Port Authority.

The Port Authority continues to provide bond financings, which generate front-end fees and annual administrative fees based on the outstanding principal balance, including structured financings for which such fees may be significant. There are several projects with the potential to close in the next couple of years, including some that may be included on the Port Authority's balance sheet.

The Port Authority will continue to rely on the operations support provided from its public partners – the City of Cincinnati, Ohio and Hamilton County, Ohio. During 2005, the Port Authority did not issue revenue bonds; and in 2006 and 2004, it closed approximately $16 million and $63 million, respectively, in revenue bond financings.

Since 2005, the Port Authority has not anticipated further revenues or expenses related to The Banks development.

Financial Statements

Port of Greater Cincinnati Development Authority

Balance Sheets

December 31, 2006 and 2005

	2006	2005
Assets		
Current Assets		
Unrestricted Assets		
Cash	$ 802,917	$ 777,587
Accounts receivable	53,153	4,500
Total unrestricted current assets	856,070	782,087
Restricted Assets		
Cash and cash equivalents	287,333	59,051
Short-term investments	1,144,535	1,085,485
Prepaid expense	115,223	—
Total restricted current assets	1,547,091	1,144,536
Total current assets	2,403,161	1,926,623
Noncurrent Assets		
Cash and cash equivalents, restricted	1,942,733	114,070
Investments, restricted	357,399	—
Bond issue costs, net	1,625,032	1,048,526
Depreciable capital assets, net	23,951,439	14,208,163
Total noncurrent assets	27,876,603	15,370,759
Total assets	$ 30,279,764	$ 17,297,382
Liabilities and Net Assets		
Current Liabilities		
Payable from Unrestricted Assets		
Accounts payable	$ 37,447	$ 22,082
Accrued expenses	4,783	4,962
Total current liabilities payable from unrestricted assets	42,230	27,044
Payable from Restricted Assets		
Accrued interest	447,595	381,512
Total current liabilities	489,825	408,556
Noncurrent Liabilities		
Payable from Restricted Assets		
Bonds payable	28,000,000	18,000,000
Total liabilities	28,489,825	18,408,556
Net Assets		
Invested in capital assets, net of related debt	1,308,472	(1,484,705)
Unrestricted net assets	481,467	373,531
Total net assets	1,789,939	(1,111,174)
Total liabilities and net assets	$ 30,279,764	$ 17,297,382

Port of Greater Cincinnati Development Authority
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2006 and 2005

	2006	2005
Operating Revenues		
Public funding	$ 350,000	$ 460,000
Charges for services	536,941	224,825
Other income	27,862	1,975
Total operating revenues	914,803	686,800
Operating Expenses		
Salaries and benefits	332,183	335,823
Professional services	410,445	572,595
Occupancy	31,337	29,472
Travel	9,683	8,995
Equipment and supplies	17,662	15,607
Depreciation and amortization	459,451	395,160
Interest	1,210,618	1,144,536
Other operating expenses	283,202	120,128
Total operating expenses	2,754,581	2,622,316
Operating Loss	(1,839,778)	(1,935,516)
Non-operating Income		
Grant receipts	3,262,663	2,596,518
Less grant expenditures	(3,262,663)	(2,596,518)
Bond service payments	4,647,756	—
Investment income	93,135	61,345
Total non-operating income	4,740,891	61,345
Increase (Decrease) in Net Assets	2,901,113	(1,874,171)
Net Assets, Beginning of Year	(1,111,174)	762,997
Net Assets, End of Year	$ 1,789,939	$ (1,111,174)

Port of Greater Cincinnati Development Authority

Statements of Cash Flows

Years Ended December 31, 2006 and 2005

		2006		2005
Operating Activities				
Receipts from public funding sources	$	350,000	$	460,000
Receipts from charges for services		488,288		232,825
Paid to vendors		(876,643)		(1,103,615)
Paid to employees		(271,678)		(266,366)
Interest paid on revenue bonds		(1,144,535)		(1,144,533)
Net cash used in operating activities		(1,454,568)		(1,819,714)
Capital and Related Financing Activities				
Bond service payments		4,647,756		—
Purchase of capital assets		(10,168,599)		(2,761)
Proceeds from issuance of long-term debt		10,000,000		—
Payment of bond issuance costs		(619,000)		—
Net cash provided by (used in) capital and related financing activities		3,860,157		(2,761)
Investing Activities				
Investment income		93,135		61,345
Purchase of investments		(1,557,635)		(67,150)
Proceeds from sale and maturities of investments		1,141,186		1,162,841
Proceeds from sale of (acquisition of) property held for redevelopment		—		782,681
Net cash (used in) provided by investing activities		(323,314)		1,939,717
Increase in Cash and Cash Equivalents		2,082,275		117,242
Cash and Cash Equivalents, Beginning of Year		950,708		833,466
Cash and Cash Equivalents, End of Year	$	3,032,983	$	950,708
Reconciliation of Operating Income to Net Cash Used in Operating Activities				
Operating loss	$	(1,839,778)	$	(1,935,516)
Adjustments for items not requiring cash for operating activities:				
Depreciation and amortization		459,451		395,160
Loss on disposal of capital assets		8,366		—
Changes in assets and liabilities				
Accounts receivable		(48,653)		8,000
Prepaid expenses		(115,223)		—
Accounts payable		15,365		(287,216)
Accrued expenses		65,904		(142)
Net cash used in operating activities	$	(1,454,568)	$	(1,819,714)

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

Nature of Operations and Reporting Entity

The Port of Greater Cincinnati Development Authority ("Port Authority") is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. As authorized by Ohio Revised Code section 4582.22, the City of Cincinnati, Ohio and Hamilton County, Ohio created the Port Authority on December 7, 2000.

The Port Authority seeks to identify, restore, and redevelop properties in Hamilton County affected or perceived to be affected by environmental contamination; and to provide development financing through the issuance of revenue bonds.

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

Basis of Accounting and Presentation

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

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

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

Use of Estimates

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

Cash Equivalents

The Port Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2006, cash equivalents consisted primarily of money market accounts with brokers (See Note 2).

Investments and Investment Income

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

Capital Assets

Capital assets are stated at historical cost and depreciated using the straight-line method over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements. Property held for redevelopment that is environmentally contaminated or perceived to be contaminated, is not depreciated until redevelopment is completed. All capital assets in excess of $1,000 are capitalized. The following estimated useful lives are being used by the Port Authority:

Land improvements	30 – 45 years
Buildings and leasehold improvements	3 – 45 years
Office equipment and furnishings	3 – 7 years

Issue Costs

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

Net Assets

Net assets of the Port Authority are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets.

Operating Revenues

Operating revenues consist of public funding from the City of Cincinnati, Ohio and Hamilton County, Ohio, and charges for project services. Grant revenues received by the Port Authority and subsequently passed-through to third parties, including service payments, special assessments, and other revenues collected and assigned by other governmental entities to the Port Authority to provide revenues to support Port Authority revenue bonds, are considered non-operating.

Note 2: Deposits, Investments, and Investment Income

Deposits

Moneys in the funds of the Port Authority, except as otherwise described below with respect to investments controlled by the terms of a bond resolution or trust agreement or indenture, and to the extent in excess of current needs, may be invested in accordance with the Ohio Uniform Depository Act, Revised Code Sections 135.01-135.21 ("UDA"). At December 31, 2006, the aggregate amount of moneys in the unrestricted general operating funds of the Port Authority was $802,917, all of which constituted "active deposits," deposited in accordance with UDA. All of that money was, at December 31, 2006, deposited with one qualified banking institution. At December 31, 2006 and 2005, approximately $100,000 of the Port Authority's deposits was covered by FDIC insurance. The remaining bank balances at December 31, 2006 and 2005 of approximately $2,937,000 and $895,000, respectively, were collateralized with securities by the pledging institution's trust department or agent, but not in the Port Authority's name. At no time during the two-year period ending December 31, 2006 did the Port Authority have any amounts for investment in the unrestricted general operating funds of the Port Authority not constituting active deposits.

Investments

Investments represent trusted funds securing revenue bonds. Funds held by a corporate trustee on behalf of the Port Authority may be legally invested in accordance with the bond-authorizing resolution of the Port Authority Board of Directors or the trust indenture or agreement securing those revenue bonds.

At December 31, 2006 and 2005, U.S. Bank N.A., the Trustee for the Cincinnati Mills 2004 infrastructure project revenue bonds, held investments with a fair value of $1,501,934 and $1,085,485, respectively, all of which were obligations of the U.S. Treasury (in addition to certain amounts held in money market funds comprised solely of such obligations). In 2005, substantially all of those investments were in the capitalized interest account from which all capitalized and prefunded bond and administrative payments were made. In 2006, substantially all of those investments were in the Bond Reserve Fund. The investments have maturities that correspond to and precede the payments to be made from the proceeds of those investments and are all expected to be held until maturity.

At December 31, 2006, U.S. Bank N.A., the trustee for the Springdale Pictoria 2006 public parking facilities revenue bonds, held investments in money market funds with a fair value of $1,271,247, all of which were obligations of the U.S. Treasury. The majority of the funds were held in the Bond Reserve Fund, with the balance held in the capitalized interest account and an administrative expense fund for the payment of capitalized interest and pre-funded administrative expenses.

Investment Risks

Interest Rate Risk – The Port Authority's investment policy limits its operating investment portfolio to maturities of less than one year. The specific terms of each bond trust's governing documents determine the length of those investment maturities. At December 31, 2006 and 2005, all Port Authority investments have effective maturity dates of less than one year.

Custodial Credit Risk – Investments of the Port Authority are insured, registered in the name of the government, and/or collateralized with securities by the pledging institution's trust department or agent; therefore, there is no custodial credit risk exposure.

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

Summary of Carrying Values

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

	2006	2005
Carrying value		
Deposits	$ 802,917	$ 777,587
Investments	3,732,000	1,258,606
	$ 4,534,917	$ 2,036,193
Included in the following balance sheet captions		
Cash	$ 802,917	$ 777,587
Restricted cash and investments - current	1,431,868	1,144,536
Noncurrent cash and investments	2,300,132	114,070
	$ 4,534,917	$ 2,036,193

Investment Income

Investment income for the years ended December 31, 2006 and 2005 consisted of:

	2006	2005
Interest income	$ 67,829	$ 71,038
Net increase (decrease) in fair value of investments	25,306	(9,693)
	$ 93,135	$ 61,345

Port of Greater Cincinnati Development Authority
Notes to Financial Statements
December 31, 2006 and 2005

Note 3: Capital Assets

Capital assets activity for the years ended December 31, 2006 and 2005 was:

	2006				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements – Cincinnati Mills	$ 4,519,426	$ —	$ —	$ —	$ 4,519,426
Land improvements – Pictoria-Springdale	—	882,619	—	—	882,619
Buildings – Cincinnati Mills	10,084,875	—	—	—	10,084,875
Buildings – Pictoria-Springdale	—	9,260,329	—	—	9,260,329
Office equipment	35,222	16,510	(23,289)	—	28,443
Leasehold improvements	10,188	9,141	(10,188)	—	9,141
	14,649,711	10,168,599	(33,477)	—	24,784,833
Less accumulated depreciation:					
Land improvements – Cincinnati Mills	(148,571)	(127,347)	—	—	(275,918)
Land improvements – Pictoria-Springdale	—	(7,612)	—	—	(7,612)
Buildings – Cincinnati Mills	(261,464)	(224,112)	—	—	(485,576)
Buildings – Pictoria-Springdale	—	(51,853)	—	—	(51,853)
Office equipment	(21,325)	(4,509)	14,923	—	(10,911)
Leasehold improvements	(10,188)	(1,524)	10,188	—	(1,524)
	(441,548)	(416,957)	25,111	—	(833,394)
Capital Assets, Net	$14,208,163	$ 9,751,642	$ (8,366)	$ —	$23,951,439

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

Note 4: Bonds Payable

Cincinnati Mills Public Infrastructure

In February 2004, the Port Authority issued an aggregate of $18 million of Special Obligation Development Revenue Bonds for the purpose of financing, in cooperation with the cities of Forest Park and Fairfield, costs of the development of public infrastructure improvements to support the redevelopment of the Cincinnati Mills Mall. The bonds consist of $7,465,000 principal amount of term bonds maturing on February 15, 2024 and $10,535,000 principal amount of term bonds maturing on February 15, 2034. The assets acquired, improved, constructed, or otherwise developed by the Port Authority with the proceeds of the bonds include a public parking garage and other parking facilities, two stormwater detention ponds, and public roadways supporting the mall. Cincinnati Mills, L.L.C., an affiliate of the Mills Corporation, manages those facilities for the Port Authority. The management agreement has an initial term ending on February 15, 2019 and requires that the manager pay related costs, including taxes, insurance and costs of operation, maintenance, and repair.

The bonds were issued pursuant to a cooperative agreement with the cities in which the mall is located. The bonds are payable from service payments to be made by the owners of mall properties to those cities, which have assigned those payments to the Port Authority. The Port Authority has, in turn, assigned those payments to U.S. Bank National Association, the bond trustee under the trust indenture securing the bonds. In addition, upon petition by the mall owner, the cities imposed special assessments on the mall property, to be collected in the event that there is any anticipated shortfall in service payments.

The mall owners have acknowledged that the obligations to pay service payments and any special assessments are secured by a statutory tax lien or its equivalent and run with the land. Under the trust indenture, a debt service reserve, in an initial amount of $1,489,600, is maintained with the bond trustee. That reserve was funded (at December 31, 2006) by a deposit invested by the bond trustee in a forward delivery agreement with SunTrust Bank. The bonds are special limited obligations of the Port Authority payable only from the funds established with and revenues assigned to the bond trustee under the trust indenture, primarily the revenues assigned by the cities to the Port Authority under the cooperative agreement. The bondholders have no recourse to any other revenues or assets of the Port Authority.

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

The debt service requirements as of December 31, 2006, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2007	$ 1,144,535	$ —	$ 1,144,535
2008	1,144,535	—	1,144,535
2009	1,410,873	275,000	1,135,873
2010	1,412,918	295,000	1,117,918
2011	1,413,703	315,000	1,098,703
2012 – 2016	7,068,825	1,910,000	5,158,825
2017 – 2021	7,079,445	2,630,000	4,449,445
2022 – 2026	7,108,850	3,640,000	3,468,850
2027 – 2031	7,121,480	5,025,000	2,096,480
2032 – 2034	4,297,200	3,910,000	387,200
	$ 39,202,364	$ 18,000,000	$ 21,202,364

Springdale Pictoria Public Parking Garage

In October 2006, the Port Authority issued an aggregate of $10 million of Special Obligation Development Revenue Bonds for the purpose of financing, in cooperation with the City of Springdale, costs of the acquisition and development of public parking facilities to support the development of the Pictoria Corporate Center. The bonds consist of term bonds maturing on February 1, 2031. The assets acquired, improved, constructed or otherwise developed by the Port Authority with the proceeds of the bonds include a 1,132-space public parking garage serving the general public and located at a mixed-use commercial development (including office, restaurant, cinema, and distribution facilities). In addition, utilizing equity provided by the City from service payments collected and available for that purpose, the Port Authority acquired certain road improvements located near an entrance to the parking garage at the terminus of one of the public roads constructed by the City in support of the development. The Port Authority has entered into a management agreement with MEPT Pictoria, LLC to manage the public facilities for the Port Authority. The management agreement has an initial term ending on October 25, 2021 and requires that the manager pay all related costs, including taxes, insurance, and costs of operation, maintenance, and repair.

The bonds were issued pursuant to a cooperative agreement with the City and are payable from service payments to be made by the owners of property included in Phase II of the proposed three-phase development to the City, which has assigned those payments to the Port Authority. The Port Authority has, in turn, assigned those payments to U.S. Bank National Association, the bond trustee under the trust indenture securing the bonds. Upon petition by the owners of that Phase II property, the City imposed special assessments on that property, to be collected if and to the extent that service payments are anticipated to be insufficient.

The Phase II property owners have acknowledged that the obligations to pay service payments and any special assessments are secured by a statutory tax lien or its equivalent and run with the land. Under the trust indenture, two reserve funds, in an aggregate initial amount of $890,000, are to be maintained with the bond trustee for the periods required by the trust indenture. Those reserves were funded initially from bond proceeds or equity provided by the City from service payments collected and available for that purpose and were, at December 31, 2006, invested in money market funds comprised of U.S. Treasury obligations managed by the bond trustee. The bonds are special limited obligations of the Port Authority payable only from the funds established with and revenues assigned to the bond trustee, primarily the revenues assigned by the cities to the Port Authority under the cooperative agreement. The bondholders have no recourse to any other revenues or assets of the Port Authority.

Interest is payable semi-annually at variable interest rates currently reset annually and with conversion options permitting the interest rate to be reset weekly or fixed to maturity. Until the interest rate on the bonds is fixed to maturity, bondholders have the rights and duties with respect to tendering bonds for purchase provided by the trust indenture. At issuance and as of December 31, 2006, Seasongood & Mayer, LLC is the remarketing agent for the bonds, and credit and liquidity support are provided for the bonds pursuant to a U.S. Bank National Association Irrevocable Letter of Credit dated October 25, 2006, stated to expire on October 25, 2009, but extended one year annually thereafter if not terminated by the Bank at least 270 days before the third or any subsequent anniversary of the date of issuance. Obligations under the reimbursement agreement providing for that letter of credit are payable only from the trust estate established under the Indenture.

At issuance and at December 31, 2006, the interest rate on the bonds was 3.65% per year through January 31, 2007. Bank, remarketing and other fees amount to an additional 1.40% per year. Assuming a constant interest rate of 3.65% per year to the maturity of the bonds, debt service as of December 31, 2006, is estimated as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2007	$ 287,333	$ —	$ 287,333
2008	625,164	265,000	360,164
2009	625,309	275,000	350,309
2010	625,089	285,000	340,089
2011	624,504	295,000	329,504
2012 – 2016	3,124,418	1,650,000	1,474,418
2017 – 2021	3,123,910	1,980,000	1,143,910
2022 – 2026	3,136,425	2,390,000	746,425
2027 – 2031	3,128,823	2,860,000	268,823
	$ 15,300,975	$ 10,000,000	$ 5,300,975

Note 5: Public Funding

For the years ended December 31, 2006 and 2005, public funding for the Port Authority came from the following sources:

	2006	2005
Hamilton County, Ohio	$ 350,000	$ 285,000
City of Cincinnati, Ohio	—	175,000
	$ 350,000	$ 460,000

The Port Authority is dependent upon these public sources of funding for continued operations. The Port Authority expects to receive $700,000 from the City and $350,000 from the County in 2007.

Note 6: Operating Leases

Noncancellable operating leases for office space and equipment expire in various years through 2012. The office lease contains semi-annual renewal options expiring June 30, 2009 and termination options with six months notice.

Future minimum lease payments at December 31, 2006, were:

2007	$ 31,517
2008	4,764
2009	4,764
2010	4,764
2011	4,764
Thereafter	1,588
	$ 52,161

Note 7: Retirement and Post-employment Benefit Plan

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

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans. Contribution rates for calendar year 2006 amounted to 9.0% for the employee share and 13.7% for the employer share. Employer contributions required amounted to $37,220 and $36,002 for 2006 and 2005, respectively, which equaled 100% of the required contributions for each year.

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

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 for employers to fund post-retirement health care through their contributions. Since the Port Authority's employees were all enrolled in the Member-Directed Plan during 2006 and 2005, there were no contributions to OPERS used to fund heath care. At December 31, 2006, the Port 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 8: Risk Management

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

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

Settled claims have not exceeded the Port Authority's commercial insurance coverage for any of the past two years; there have been no claims.

Note 9: Conduit Revenue Bond Obligations

The Port Authority has aggregate conduit revenue bond obligations of approximately $105,025,000 and $98,695,000 at December 31, 2006 and 2005, respectively. Conduit revenue bond obligations are not recorded on the Port Authority's financial statements because it owns no assets and has no obligations thereon.

Cincinnati Zoo Project

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

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

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

2007	$ 160,000
2008	165,000
2009	170,000
2010	180,000
2011	185,000
Thereafter	2,675,000
	$ 3,535,000

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

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

2007	$ 40,000
2008	40,000
2009	40,000
2010	40,000
2011	40,000
Thereafter	510,000
	$ 710,000

National Underground Railroad Freedom Center Project

In April 2003, the Port Authority issued $50 million of Adjustable Rate Demand Revenue Bonds, Series 2003A (the Bonds) to provide funds to lend to the National Underground Railroad Freedom Center, Inc., which was used by the Corporation to finance, refinance or reimburse itself for all or a portion of the costs of the acquisition, construction, renovation, improvement, and equipping of a new museum and arts, cultural, educational, and research center. Four letters of credit have been issued to benefit the Trustee to secure the repayment of the Bonds.

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

The Bonds are payable in 2034 through 2038 only from the funds pledged to secure the Bonds.

Queen City Square Project

In June 2004, the Port Authority issued a $10 million Taxable Special Obligation Development TIF Revenue Bond and a $35 million Taxable Special Obligation Development Lease Revenue Bond for the purpose of financing costs of constructing an office building and parking garage included in the first phase of the Queen City Square redevelopment in downtown Cincinnati. The assets financed were completed in the first half of 2006 by an affiliate of Western Southern Life Insurance Company ("Western Southern") for lease to a separate affiliate of Western Southern pursuant to a triple-net capital lease ("Lease"). The bonds were purchased for investment by another affiliate of Western Southern.

The "lease bond" is payable solely from rent and other payments to be made to the Port Authority under the Lease, and the Port Authority has assigned those payments to the holder of the lease bond. The "TIF bond" is payable solely from service payments to be made by the owner of the assets financed in lieu of certain real estate taxes exempted by the City of Cincinnati. The obligation of the owner to pay service payments in lieu of taxes is secured by a statutory tax lien. The owner is further obligated contractually to pay minimum service payments sufficient to pay the principal of and interest on the TIF bond. Those service payments have been assigned by the City of Cincinnati to the Port Authority which has, in turn, assigned those payments to The Bank of New York Trust Company, N.A., the TIF bond trustee. Pursuant to the Lease, the lessee is required to pay all such service payments.

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

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

TIF Bond	
2007	$ —
2008	—
2009	148,623
2010	158,824
2011	169,726
Thereafter	9,522,827
	$ 10,000,000
Lease Bond	
2007	$ 661,305
2008	704,989
2009	751,558
2010	801,203
2011	851,127
Thereafter	31,229,818
	$ 35,000,000

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

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

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

Note 10: Subsequent Events

Red Bank Village Project

In May 2007, the Port Authority issued $7,675,000 principal amount of special obligation development revenue bonds for the purpose of financing costs of the acquisition, construction, installation, equipping, improvement, and development, in cooperation with the Village of Fairfax, Ohio, of public infrastructure improvements. The improvements financed include road and street improvements, public utility (water, sanitary sewer, and storm water control facilities), and public safety improvements, in support of a mixed-use commercial development generally known as Red Bank Village. Revenues to support the payment of the bonds consist primarily of service payments to be made in lieu of certain exempted taxes assigned by the Village to the Port Authority under a cooperative agreement and assigned by the Port Authority to the bond trustee.

To the extent that the developer or the Village makes a request for authorized expenditures under the bond agreements incurred prior to December 31, 2006, the Port Authority has a contingent liability. The Village requested reimbursement of $60,000 at the bond closing for the cost of land acquired by the Village. The developer has made no such request at this time.

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the Port of Greater Cincinnati Development Authority as of and for the year ended December 31, 2006, and have issued our report thereon dated August 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Organization'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 a combination of control deficiencies, that adversely affects the Organization'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 Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or a 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 Organization'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

BKD, LLP

August 21, 2007

Mary Taylor, CPA
Auditor of State

PORT OF GREATER CINCINNATI DEVELOPMENT AUTHORITY

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 8, 2007

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