

***PINNACLE COMMUNITY INFRASTRUCTURE
FINANCING AUTHORITY***

Franklin County, Ohio

AUDIT REPORT

For the Years Ended December 31, 2010 and 2009

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Board of Trustees
Pinnacle Community Infrastructure Financing Authority
8965 Guilford Road
Suite 210
Columbia, Maryland 21046

We have reviewed the *Report of Independent Accountants* of the Pinnacle Community Infrastructure Financing Authority, Franklin County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2009 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

July 1, 2011

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PINNACLE COMMUNITY INFRASTRUCTURE & FINANCING AUTHORITY
FRANKLIN COUNTY
AUDIT REPORT
For the Years Ended December 31, 2010 and 2009

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REPORT OF INDEPENDENT ACCOUNTANTS

Pinnacle Community Infrastructure Financing Authority
Franklin County

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Pinnacle Community Infrastructure Financing Authority, Franklin County, Ohio (the Authority), as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. 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 audit provides 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 Pinnacle Community Infrastructure Financing Authority, as of December 31, 2010 and 2009, and the respective 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 June 6, 2011 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 5 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.

Charles E. Harris

Charles E. Harris & Associates, Inc.

June 6, 2011

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010 AND 2009
(UNAUDITED)

The Management's Discussion and Analysis of the Pinnacle Community Infrastructure Financing Authority, Franklin County, Ohio, (the "Authority") financial performance provides an overall review of the Authority's financial activities for the years ended December 31, 2010 and 2009. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the Authority's financial performance.

Financial Highlights

1. The Authority encourages the orderly development of a well-planned, diversified community of approximately 588 acres of real property located within the City of Grove City, Franklin County, Ohio.
2. Net Deficit at December 31, 2010 and 2009, totaled \$(12,343,797) and \$(12,560,431), respectively, due wholly to the donation of capital assets upon their completion and acceptance by the City in 2008.
3. The Authority previously incurred \$14,815,000 in community facility bonds on August 10, 2004. The Authority's debt will be paid through the collection of Community Development Charges imposed on the chargeable properties benefiting from the capital asset.
4. In fiscal years 2010 and 2009, the Authority assessed Community Development Charges totaling \$1,130,000 and \$1,100,000, respectively.

Overview of the Financial Statements

This annual report consists of two parts – (i) Management's Discussion and Analysis and (ii) the basic financial statements consisting of a *Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows;* and related footnotes. The Statement of Net Assets represents the financial position of the Authority and provides information about the activities of the Authority, including all short-term and long-term financial resources and obligations. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included in the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The Statement of Cash Flows reflects how the Authority finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Comparative Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets include all assets, liabilities, revenues and expenses using the accrual basis of accounting, similar to accounting used by most private-sector companies. The accrual basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Authority as a whole, the financial position of the Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 6 and 7 of this report.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010 AND 2009
(UNAUDITED)

The Statement of Cash Flows provides information about how the Authority finances and meets the cash flow needs of its operations. The Statement of Cash Flows can be found on page 8 of this report.

Summary Statement of Net Assets

The table below provides a summary of the Authority's net assets for the fiscal years ended December 31, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current and Other Assets	\$ 2,866,139	\$ 2,839,240	\$ 2,918,101
Total Assets	<u>2,866,139</u>	<u>2,839,240</u>	<u>2,918,101</u>
Liabilities:			
Current Liabilities	1,438,936	1,394,671	1,373,712
Long Term Liabilities	<u>13,771,000</u>	<u>14,005,000</u>	<u>14,226,000</u>
Total Liabilities	<u>15,209,936</u>	<u>15,399,671</u>	<u>15,599,712</u>
Net Assets:			
Unrestricted	<u>(12,343,797)</u>	<u>(12,560,431)</u>	<u>(12,681,611)</u>
Total Net Assets	<u>\$ (12,343,797)</u>	<u>\$ (12,560,431)</u>	<u>\$ (12,681,611)</u>

All improvements financed with the Bonds were donated to the appropriate public entity upon completion in 2008.

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

The table below reflects the changes in net assets for the fiscal years ended December 31, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenue	\$ 1,111,241	\$ 1,080,879	\$ 1,101,484
Operating Expenses	<u>28,861</u>	<u>84,472</u>	<u>46,154</u>
Operating Income	<u>1,082,380</u>	<u>996,407</u>	<u>1,055,330</u>
Non-Operating Revenue/(Expenses)			
Earning on Investments	34,008	37,089	37,779
Interest Expense	(877,605)	(890,167)	(676,515)
Amortization Expense	<u>(22,149)</u>	<u>(22,149)</u>	<u>(22,149)</u>
Total Non-Operating Expenses	<u>(865,746)</u>	<u>(875,227)</u>	<u>(660,885)</u>
Donated Capital Assets	<u>-</u>	<u>-</u>	<u>(14,155,765)</u>
Change in Net Assets	<u>\$ 216,634</u>	<u>\$ 121,180</u>	<u>\$ (13,761,320)</u>

Net assets increased in 2010 and 2009 due to the collections of Community Development Charges and earnings on investments partially offset by the Authority's operating expenses, bond interest payments, and charges for amortization.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010 AND 2009
(UNAUDITED)

Budgeting

The Authority is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets

The Authority's capital assets were completed in 2008 and subsequently donated to the appropriate public entity.

Debt

The Authority issued Community Facilities Bonds totaling \$14,815,000 to construct and acquire community facilities, which include a community center, community recreation improvements, entry monumentation, landscaping and signage, water and sewer facilities, storm water management features, roadways and traffic control improvements. The debt service will be paid annually by the revenue received from the Community Development Charges. Accrued interest in excess of the cash available from Community Development Charges will be added to the principal.

Current Issues

The Pinnacle Club golf course opened during the summer of 2006. Construction of homes and sale of lots is still ongoing. In 2005, Condominium Pod I and J were sold to Mews at Pinnacle Club LLC and Cottages at Pinnacle LLC, respectively. As of December 31, 2010, at least 647 building permits have been issued, and 492 homes have closed and are currently occupied. The developer estimates a total of 1,508 units upon completion of the development.

Contacting Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances and to reflect the Authority's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to the Authority's Administrator, MuniCap, Inc., at 8965 Guilford Road, Suite 210, Columbia, Maryland 21046.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY, OHIO
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,112,444	\$ 1,114,642
Interest receivable	102	3,070
Community development charges receivable	1,179,573	1,125,359
Total Current Assets	<u>2,292,119</u>	<u>2,243,071</u>
Noncurrent Assets		
Deferred bond issuance costs	574,020	596,169
Total Noncurrent Assets	<u>574,020</u>	<u>596,169</u>
TOTAL ASSETS	<u><u>2,866,139</u></u>	<u><u>2,839,240</u></u>
 LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts payable	2,815	445
Bond interest payable	72,121	73,226
Deferred revenue	1,130,000	1,100,000
Debt due in less than one year	234,000	221,000
Total Current Liabilities	<u>1,438,936</u>	<u>1,394,671</u>
Long Term Liabilities		
Debt due in more than one year	13,771,000	14,005,000
Total Long Term Liabilities	<u>13,771,000</u>	<u>14,005,000</u>
Total Liabilities	<u>15,209,936</u>	<u>15,399,671</u>
Net Assets (Deficit)		
Unrestricted assets	(12,343,797)	(12,560,431)
Total Net Deficit	<u>(12,343,797)</u>	<u>(12,560,431)</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 2,866,139</u></u>	<u><u>\$ 2,839,240</u></u>

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

**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Community development charges	\$ 1,094,788	\$ 1,075,755
Delinquency fees	16,453	5,124
Total Operating Revenues	<u>1,111,241</u>	<u>1,080,879</u>
Operating Expenses		
Accounting and audit fees	-	18,410
Administrative fees	21,515	38,651
Legal fees	4,322	24,394
Insurance expense	3,024	3,017
Total Operating Expenses	<u>28,861</u>	<u>84,472</u>
Operating Income	<u>1,082,380</u>	<u>996,407</u>
Non-Operating Revenues (Expenses)		
Interest and dividend revenues	34,008	37,089
Interest expense	(877,605)	(890,167)
Amortization expense	<u>(22,149)</u>	<u>(22,149)</u>
Total Non-Operating Expenses	<u>(865,746)</u>	<u>(875,227)</u>
Change in Net Assets	216,634	121,180
Net Assets, Beginning of Year	<u>(12,560,431)</u>	<u>(12,681,611)</u>
Net Assets, End of Year	<u>\$ (12,343,797)</u>	<u>\$ (12,560,431)</u>

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

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Cash receipts for community development charges	\$ 1,081,579	\$ 1,085,350
Cash receipts for penalties and interest charges	5,449	5,124
Cash payments for accounting and audit fees	(221)	(18,189)
Cash payments for administrative fees	(20,667)	(39,890)
Cash payments for legal fees	(2,579)	(24,394)
Cash payments for insurance	(3,025)	(3,017)
Net Cash Provided by Operating Activities	<u>1,060,536</u>	<u>1,004,984</u>
Cash Flows from Investing Activities		
Interest and dividends received	<u>36,976</u>	<u>37,101</u>
Net Cash Provided by Investing Activities	<u>36,976</u>	<u>37,101</u>
Cash Acquisition and construction of capital assets		
Principal and interest paid on bonds	<u>(1,099,710)</u>	<u>(1,099,190)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,099,710)</u>	<u>(1,099,190)</u>
Net Decrease in Cash	(2,198)	(57,105)
Cash, Beginning of Year	<u>1,114,642</u>	<u>1,171,747</u>
Cash, End of Year	<u>\$ 1,112,444</u>	<u>\$ 1,114,642</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 1,082,380	\$ 996,407
Adjustments		
Increase in community development charges receivable	(54,214)	(405)
Increase (Decrease) in accounts payable	2,370	(1,018)
(Decrease) Increase in deferred revenue	<u>30,000</u>	<u>10,000</u>
Net Cash Provided by Operating Activities	<u>\$ 1,060,536</u>	<u>\$ 1,004,984</u>

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

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 1 – REPORTING ENTITY

The Pinnacle Community Infrastructure Financing Authority, Franklin County, Ohio (the “Authority”) is a “new community authority” created pursuant to Chapter 349 of the Ohio Revised Code (the “Act”). On February 12, 2004, M/I Homes of Central Ohio and the Pinnacle Development Company of Grove City (collectively, the “Developer”) filed a petition (the “Petition”) for creation of the Authority with the Board of County Commissioners of Franklin County, Ohio. The Petition, which may be subject to amendment or change, allows the Authority to finance the costs of publicly owned and operated community facilities with assessed Community Development Charges. In accordance with the Act, the Petition was accepted by the County Commissioner’s Resolution No. 275-04 and approved March 30, 2004. By its Resolution, the County Commissioners determined that the new community district would be conducive to the public health, safety, convenience and welfare, and that it was intended to result in the development of a new community as described in the Act. The Authority thereby organized as a body corporate and politic in the State.

On August 6, 2004, a “Declaration of Covenants and Restrictions for the Authority” (the “Declaration”) was filed by the Developer with the Franklin County Recorder under the Act placing, among other things, a “Community Development Charge” on the property within the boundaries of the Pinnacle Community Infrastructure Financing District (the “District”) to cover all or part of the cost of the acquisition, development, construction, operation and maintenance of land, “Community Land Development”, and “Community Facilities”, and all other costs incurred by the Authority in the exercise of its powers pursuant to the Act, including without limitation the reimbursement of loans, advances or expenditures made to or by the Developer for such purposes.

The Pinnacle Community Infrastructure Financing Authority, (Grove City, Ohio) Community Facility Bonds Series 2004A were issued pursuant to a Master Trust Agreement by and between the Authority and the Huntington National Bank (the “Trustee”), dated as of July 15, 2004 and a limited offering memorandum for the bonds dated August 4, 2004. Bond proceeds in the amount of \$6,846,000 were used to construct the public improvements of the residential section known as Part I and bonds in the amount of \$4,000,000 were used for construction of the storm sewer project known as Part II. Part I of the development, which is known as the Residential Project, is being undertaken by the M/I Homes. Pinnacle Development Company is in charge of Part II of the development, which is also referred to as the Storm Sewer Project.

The Authority consists of approximately 588 acres of land in the City of Grove City, Ohio, which is in southwestern Franklin County and is located east of Interstate 71 and south of the Stringtown Road interchange. The District is located approximately seven miles from downtown Columbus, Ohio, and approximately twenty miles from Port Columbus International Airport. The property in the District is being developed as a planned unit development (“PUD”) encompassing a 201-acre, 18-hole golf course, and a residential community, originally comprising approximately 1,594 homes. Other planned amenities include a community center, swimming pool, tennis courts and a clubhouse. The planned mix of units includes estate homes, single-family homes, town homes, and cluster home condominiums. At inception, M/I Homes had estimated that the residential property would be sold out by the year 2011 and that the golf course would be open not later than the summer of 2006. The golf course opened in the summer of 2006 as planned.

Land within the District was initially owned by nine separate entities. Pursuant to the Acquisition Agreements, this land has been transferred to Jim Hendrix, Joseph Ciminello and JBJ Venture (collectively, the “Assignors”). On November 5, 2003, the Assignors entered into an Agreement of Sale and Assignment of Purchase Contract (the “Purchase Agreement”) with M/I Homes. Under this Purchase Agreement, M/I Homes agreed to purchase and assume the rights of the Assignors to acquire the district lands pursuant to

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 1 – REPORTING ENTITY (Continued)

the Acquisition Agreement. The Purchase Agreement allocated certain development rights and obligations relating to the District lands between M/I Homes and the Assignors. The Assignors subsequently designated Pinnacle Development to carry out their development rights and obligations under the Purchase Agreement.

The Authority is governed by a seven-member Board of Trustees. The Franklin County Board of Commissioners appoints three of the Trustees, two of whom are citizen members, to represent the interest of present and future residents of the community district, and one of whom is a representative of local government. One additional citizen member is elected by the residents of the district. The remaining three Trustees are appointed by the Developer. All Trustees are empowered to vote on all matters within the authority of the Board of Trustees, and no vote by a member appointed by the Developer shall be construed to give rise to civil or criminal liability for conflict of interest on the part of public officials. A schedule established by the Franklin County Board of County Commissioners provides for the appointed members to be replaced by elected citizen members each time the District gains one-sixth of its projected total population up until such time as all of the appointed members are replaced. A similar schedule established by the Franklin County Board of County Commissioners provides for replacement of trustees appointed by the Developer by elected citizen members each time the District gains one-third of its projected total population up until such time as all the Developer's appointed members are replaced.

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. The policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Authority also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements.

A. Basis of Presentation

The Authority's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. The Authority uses enterprise fund accounting to maintain its financial records during the fiscal year. Enterprise fund accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus and Basis of Accounting

The Authority's financial activity is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Authority are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows reflects how the Authority finances and meets its cash flow needs.

Net Assets are segregated into Invested in Capital Assets, Net of Related Debt, Restricted, and Unrestricted components, if applicable.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, and measurement focus relates to the timing of the measurements made.

The Authority uses the accrual basis of accounting and the flow of economic resources measurement focus for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Cash and Investments

Cash received by the Authority is deposited with a financial institution or invested. Deposits and investments having an original maturity of three months or less at the time they are purchased are presented in the financial statements as Cash and Cash Equivalents. Investments with an initial maturity of more than three months are reported as Investments. Investments were limited to money market funds and repurchase agreements.

D. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their fair market value on the date that they will be donated. The Authority does not maintain a capitalization threshold as all infrastructure assets are capitalized. The Authority does not depreciate capital assets that will be donated upon completion/acquisition.

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Authority first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Authority, these revenues are Community Development Charges. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the Authority. All revenues and expenses not meeting this definition are reported as non-operating.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 3—DEPOSITS AND INVESTMENTS

Cash received by the Authority is deposited with a financial institution or invested. Deposits and investments having an original maturity of three months or less at the time they are purchased are presented in the financial statements as Cash and Cash Equivalents. Investments with an initial maturity of more than three months are reported as Investments. Cash and cash equivalents consisted of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>	<u>Rating</u>
US Treasury money market funds	\$ -	\$ 14,932	AAAm
Repurchase agreement	<u>1,112,444</u>	<u>1,099,710</u>	Not rated
Total cash and cash equivalents	<u>\$ 1,112,444</u>	<u>\$ 1,114,642</u>	

Cash and cash equivalents are carried at cost, which approximates fair market value.

State statutes classify monies held by the Authority into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Authority treasury, in commercial accounts payable or withdraw-able on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, pass book accounts.

Interim deposits are deposits of interim monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

State statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreements must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations,

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 3—DEPOSITS AND INVESTMENTS (Continued)

- provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio).

The Authority may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio,
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and,
3. Obligations of the Authority.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer, or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial Credit Risk – Deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority had no such deposits at December 31, 2010 and 2009.

Investments

As of December 31, 2010 and 2009, all of the Authority funds were invested in money market accounts or repurchase agreements.

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. The Authority does not have a policy to limit its exposure to interest rate risk; however, the Authority's investments in money market funds are withdraw-able on demand.

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Trust Indenture specifies that investment providers must have a rating of at least "AA-" by S&P or "Aa3" by Moody's.

Concentration of credit risk can also arise by failing to adequately diversify investments. The Authority places no limits on the amount that may be invested in any one issuer.

NOTE 4—COMMUNITY DEVELOPMENT CHARGES

Community Development Charges ("Charge") are payments to be levied on the property in the District pursuant to a Declaration of Covenants and Restrictions (the "Declaration") filed by the Authority under Sections 349.06(Q) and 349.07 of the Ohio Revised Code. This Declaration, which was filed and recorded with the Franklin County Recorder on August 9, 2004, created covenants running with the land and established the obligation of current and future landowners to pay the Charge. This obligation is subject to certain maximum Charge limits as set out in the Declaration. The Charge will generally be collected in the same manner as real property taxes.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 4—COMMUNITY DEVELOPMENT CHARGES (Continued)

A uniform Charge is to be collected each year based on the acreage of each chargeable parcel. An aggregate maximum sub-area charge is specified in Section 5.2 of the Declaration. This Charge is dependent on the estimated acreage of property in each sub-area in the District. An annual Charge is to be collected from the chargeable property within the Authority each year in an amount equal to the “Annual Revenue Requirement”.

The Annual Revenue Requirement is defined in Section 2.05 of the Declaration as an amount equal to:

(A) the amount required in any year to pay: (i) debt service and other periodic costs (including deposits to any sinking funds) on the Bonds to be paid from the Charge collected in such year, (ii) administrative expenses to be incurred in the year or incurred in any previous year and not paid by the Authority, (iii) any amount required to replenish any reserve fund established in association with the Bonds, (iv) an amount equal to the estimated delinquencies expected in payment of the Charges, and (v) the costs of remarketing, credit enhancement, bond insurance, and liquidity facility fees (including such fees for instruments that serve as the basis of a reserve fund related to any indebtedness in lieu of cash), less (B) (i) any credits available pursuant to the Trust Agreement, such as capitalized interest and investment earning on any account balances, and (ii) any other revenues available to apply to the Annual Revenue Requirement.

Community Development Charges are to be imposed proportionately on each parcel of chargeable property in an amount up to the maximum charge for such chargeable parcel to the extent necessary to fund the Annual Revenue Requirement. For the fiscal years ended December 31, 2010 and 2009, the Annual Revenue Requirements were \$1,130,000 and \$1,100,000, respectively. Revenues of \$1,094,788 and \$1,075,755 were recognized in 2010 and 2009, respectively.

NOTE 5—RECEIVABLES

Receivables at December 31, 2010 and 2009 consisted of interest on investments, Community Development Charges, and penalties and interest due on delinquent Community Development Charges. All receivables are considered collectible in full within one year.

NOTE 6—CAPITAL ASSETS

During fiscal year 2004, the Authority began constructing both the Residential Portion and the Storm Sewer Portion of the facilities. The Residential Project was constructed by M/I Homes LLC, and the Storm Sewer Project was constructed by Pinnacle Development Company.

All capital assets were completed in 2008, and \$14,155,765 in public improvements, including related financing costs, were donated to and accepted by the City of Grove City, Ohio. Therefore, there were no capital assets for the years ended December 31, 2010 and 2009.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 7—LONG-TERM OBLIGATIONS

The Authority's long-term obligations activity for the years ended December 31, 2010 and 2009 was as follows:

Community Facilities Fixed Term Bonds	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2010					
Series 2004 Term 2022	\$ 4,166,000	\$ -	\$ (221,000)	\$ 3,945,000	\$ 234,000
Series 2004 Term 2036	10,060,000	-	-	10,060,000	-
	<u>\$ 14,226,000</u>	<u>\$ -</u>	<u>\$ (221,000)</u>	<u>\$ 14,005,000</u>	<u>\$ 234,000</u>
2009					
Series 2004 Term 2022	\$ 4,374,000	\$ -	\$ (208,000)	\$ 4,166,000	\$ 211,000
Series 2004 Term 2036	10,060,000	-	-	10,060,000	-
	<u>\$ 14,434,000</u>	<u>\$ -</u>	<u>\$ (208,000)</u>	<u>\$ 14,226,000</u>	<u>\$ 211,000</u>

A. Community Facilities Bonds, Series 2004

On August 14, 2004, the Authority issued \$14,815,000 in Community Facilities Bonds Series 2004A, for the purpose of providing funds to acquire community facilities. These bonds constitute two term bonds, Term 2022 Bonds and Term 2036 Bonds. The interest rate on the Term 2022 and Term 2036 bonds is 6.00% and 6.25%, respectively.

Interest on the Bonds is paid on June 1 and December 1 of each year. Principal payments on the Bonds are due each December 1 from mandatory sinking fund redemption. Interest is calculated based on a year of 360 days.

The Series 2004A Bonds are also subject to mandatory sinking fund redemption, extraordinary mandatory redemption, and optional redemption.

B. Mandatory Sinking Fund Redemption

The Series 2004A Bonds are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the Series. That mandatory redemption is to occur on December 1 in each of the years 2007 through 2036 at a redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule (including the amount of Series 2004A Bonds redeemed at maturity):

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

Year ending December 31:	<u>Term 2022 Bonds 6.0% \$4,755,000</u>		<u>Term 2036 Bonds 6.25% \$10,060,000</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 234,000	\$ 236,700	\$ -	\$ 628,750
2012	248,000	222,660	-	628,750
2013	263,000	207,780	-	628,750
2014	278,000	192,000	-	628,750
2015	295,000	175,320	-	628,750
2016-2020	1,764,000	588,720	-	3,143,750
2021-2025	863,000	78,420	1,501,000	3,053,750
2026-2030	-	-	3,196,000	2,299,438
2031-2035	-	-	4,328,000	1,167,688
2036	-	-	1,035,000	64,688
Total	<u>\$ 3,945,000</u>	<u>\$ 1,701,600</u>	<u>\$ 10,060,000</u>	<u>\$ 12,873,063</u>

C. Extraordinary Mandatory Redemption

The Bonds are subject to extraordinary mandatory redemption prior to maturity by the Authority in whole, on any date, or in part, on any Interest Payment Date, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus interest accrued to the redemption date, as follows:

- i. from moneys on deposit in the Series 2004A Debt Service Account upon the prepayment in whole or in part of any Community Development Charges pursuant to Section 5.04 of the Declaration, including excess moneys transferred from the Series 2004A Reserve Fund;
- ii. from moneys on deposit in the Series 2004A Debt Service Account resulting from the transfer from the Series 2004A Project Account on or after the Termination Date, including excess moneys transferred from the Series 2004A Reserve Fund;
- iii. from moneys on deposit in the Series 2004A Debt Service Account following condemnation by, or the sale of any portion of the Series 2004A Project to, a governmental Person under threat of condemnation by such governmental Person, including excess moneys transferred from the Series 2004A Reserve Fund; and
- iv. from moneys on deposit in the Series 2004A Debt Service Account following damage or destruction of all or substantially all of the Series 2004A Project and the determination by the Authority that the repair and restoration of the Series 2004A Project would not be economical or would be impracticable, including excess moneys transferred from the Series 2004A Reserve Fund.

There have been no extraordinary mandatory redemptions made to date.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 7—LONG-TERM OBLIGATIONS (Continued)

D. Optional Redemption

The Bonds are also subject to optional prior redemption on or after December 1, 2014 by and at the sole option of the Authority, either in whole or in part (as selected by the Authority) on any date and in integral multiples of \$1,000, at the percentage of par specified below plus accrued interest to the redemption date.

Date	Percentage of Par
On or after December 1, 2014	101%
On or after December 1, 2015	100%

NOTE 8—RELATED PARTY TRANSACTIONS

The petition for creation of the Authority pursuant to Chapter 349 of the Ohio Revised Code was filed with the Franklin County Commissioners by M/I Homes of Central Ohio and the Pinnacle Development Company of Grove City (collectively, the “Developer”). Three of the seven Authority Board members are comprised of individuals appointed by the Developer based on the County Commissioner’s Resolution and Chapter 349 of the Ohio Revised Code.

Land within the District was initially owned by nine separate entities. Pursuant to the Acquisition Agreements, this land has been transferred to Jim Hendrix, Joseph Ciminello and JBJ Venture (collectively, the “Assignors”). On November 5, 2003, the Assignors entered into an Agreement of Sale and Assignment of Purchase Contract (the “Purchase Agreement”) with M/I Homes. Under this Purchase Agreement, M/I Homes agreed to purchase and assume the rights of the Assignors to acquire the district lands pursuant to the Acquisition Agreement. The Purchase Agreement allocated certain development rights and obligations relating to the District lands between M/I Homes and the Assignors. The Assignors subsequently designated Pinnacle Development to carry out their development rights and obligations under the Purchase Agreement. Some of the land in the Authority is to be sold to additional developers by the Developer.

On July 1, 2004, the Authority signed an Administrative Services Agreement with MuniCap, Inc. as the Administrator. MuniCap, Inc. will assist the Authority with administration of the District. The Administrator’s services include calculation of the annual Community Development Charge, delinquency management, rebate calculations, continuing disclosure, and property owner liaison.

The Authority had Infrastructure Acquisition and Construction Agreements, which are dated July 15, 2004, with the Developer to acquire and construct certain community facilities within the District. Under these agreements, the Developer selected contractors and signed contracts for the construction of the Authority’s infrastructure. Payments to contractors by the Authority were made directly with contractors or to the Developer who then paid the contractors. The Developer supervised and approved all construction work. Prior to payment of draws, an independent inspector was required to sign off on work completed before the Authority could approve draws to be paid by the trustee. There were no payments to either M/I Homes or Pinnacle Development in 2010 or 2009 as the improvements were completed in 2008.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 8—RELATED PARTY TRANSACTIONS (Continued)

On July 15, 2004, the Authority signed a Lease Agreement with the Pinnacle Club Homeowner's Association Inc. to acquire, construct, and install certain improvements and personal property on the tract of land measuring 8.143 acres and situated in Grove City, Franklin County, Ohio. This tract is located in Virginia Military Survey Number 478 and 6840 and being part of the 209.152 acre tract conveyed to M/I Homes of Central Ohio, LLC by deed of record in Instrument Number 00405260121580, (all references refer to the records of the Recorder's Office, Franklin County, Ohio) within the Authority. Under this lease agreement, the Authority covenanted to construct and install an 8,000 square foot multi-purpose facility (Community Center), including two tennis courts, a 25-meter swimming pool, and an outdoor multipurpose court. The building would include an aerobics workout room, a health and fitness room, a children's activity room, locker rooms, and office space. Additional exterior improvements include improved parking, landscaping, and other necessary improvements. The personal property located within the Community Center consists of exercise equipment, sports equipment, office furniture, carpeting and window treatments and computers. The Pinnacle Club Homeowners' Association, Inc. subsequently signed a Base Lease Agreement with the Authority for the operation and maintenance of the Community Center. This property was donated to the Pinnacle Club Homeowners' Association, Inc in 2008.

On August 1, 2004, the Authority issued \$14,815,000 in Community Facilities Bonds, Series 2004A, for the purpose of providing funds to acquire community facilities. The Bonds were issued pursuant to a Master Trust Agreement by and between the Authority and the Huntington National Bank (the "Trustee"), dated July 15, 2004 and a limited offering memorandum for the Bonds dated August 4, 2004.

NOTE 9—CONTINGENT LIABILITIES

There are no claims or lawsuits pending against the Authority.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Pinnacle Community Infrastructure Financing Authority
Franklin County

To the Board of Trustees:

We have audited the basic financial statements of the Pinnacle Community Infrastructure Financing Authority, Franklin County, Ohio (the Authority) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated June 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls 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 opining on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, and the audit committee of the Pinnacle Community Infrastructure Financing Authority. We intend it for no one other than these specified parties.

Charles Harris Associates

Charles E. Harris & Associates, Inc.

June 6, 2011

**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY
FRANKLIN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Years Ended December 31, 2010 and 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-01	Material misstatement of financial statements	Yes	



Dave Yost • Auditor of State

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 14, 2011**