Cleveland-Cuyahoga County Port Authority

Financial Statements as of and for the Years Ended December 31, 2005 and 2004 and Independent Auditors' Reports

Auditor of State
Betty Montgomery

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

We have reviewed the *Independent Auditors' Report* of the Cleveland-Cuyahoga County Port Authority, Cuyahoga County, prepared by Deloitte & Touche LLP, for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 7, 2006

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CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Cleveland-Cuyahoga County Port Authority (the "Authority") as of December 31, 2005 and 2004, and for the years then ended, listed in the foregoing 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cleveland-Cuyahoga County Port Authority as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Authority changed its method of accounting for conduit debt in 2004.

Management's Discussion and Analysis on pages 3–15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying supplemental schedules of balance sheet information and revenue and expense information by activity as of and for the years ended December 31, 2005 and 2004, listed in the foregoing table of contents, are presented for the purpose of additional analysis rather than to present financial information regarding the individual activities and are not a required part of the basic financial statements. These supplemental schedules are the responsibility of the Authority's management. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards,* we have also issued our report dated June 26, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2005 audit.

Deloitte & Touche LLP

June 26, 2006

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the Cleveland-Cuyahoga County Port Authority (the "Authority" or the "Port"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2005 and 2004. Please read this information in conjunction with the Authority's basic financial statements and footnotes that begin on page 16.

The Authority is an independent political subdivision of the State of Ohio. It has two business lines: 1) a maritime operation which manages the international docks on the east side of the Cuyahoga River, and a bulk cargo facility on the west side of the river and 2) the development finance operation which manages financing programs involving the issuance of revenue bonds and notes.

OVERVIEW

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Authority activities include both the core Port Authority operations and development finance projects (specific projects which are financed through the Authority's Development Finance Group). Because these activities are so distinctly different, the financial statement discussion herein makes reference to them separately. Supplemental schedules are presented on this basis beginning on page 43.

Port Activities refers herein to the Authority's core maritime operations, including the cost of the administration of the Port's Operating Groups (Maritime, Development Finance, Strategic Development, and Administration, including the fees generated by such groups). The annual operating and capital budgets are based on these activities. Port Activities also includes activities related to the operation of the Authority's Cleveland Bulk Terminal (CBT), as well as activities relating to North Coast Harbor (NCH). NCH activities involve the maintenance and repair of the NCH common areas, funding for which is paid entirely by the NCH Common Area Maintenance (CAM) Agreement participants: the Rock and Roll Hall of Fame and Museum, the Great Lakes Science Center, and the Cleveland Browns.

Bond Fund Financings and Conduit Debt Projects refer herein to the development finance projects in which the Authority is involved to facilitate private industry in the creation and retention of jobs, primarily within northeastern Ohio.

Bond Fund transactions involve construction or other projects financed through the Authority's Fixed Rate Financing Program. A detailed description of the Bond Fund program can be found in the notes to the basic financial statements. Conduit debt projects involve the financing of similar projects outside of the Bond Fund, whereby the related revenue bonds and notes are not secured by the system of reserves established under the Bond Fund program. Instead, the bonds and notes are secured by the property financed and are payable solely from the payments received by the trustee from the borrowers or other sources designated in the related agreements. The Authority has no obligations for repayment of the bonds and notes relating to conduit debt projects; therefore, the debt and any corresponding assets are not recorded on the Authority's balance sheets.

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

1. For all Bond Fund financing transactions, the lender may look only to the borrower's lease or loan payments for debt service unless a default arises, in which case the reserve system established by the Authority and borrowers in the Bond Fund will make the debt service payments to the extent sufficient funds are available.

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

ACCOUNTING CHANGE

Prior to 2004, the Authority reported conduit debt obligations on its balance sheet, along with any related assets. Because the bonds do not constitute a debt or pledge of the full faith and credit of the Authority, effective January 1, 2004, the Authority changed its accounting for conduit debt by removing the conduit debt obligations and related assets from its balance sheet. Because of the removal of the conduit debt obligations from the balance sheet and the fact that the Authority has no responsibility to service the conduit debt obligations after they are issued, effective January 1, 2004, the Authority also began recognizing any fees associated with the conduit debt transactions in income as they are received rather than over the period the debt is outstanding. Such fees are not recognized in income prior to receipt because they will only be paid while the related debt is outstanding and are subject to the risk that the debt will be prepaid in advance of its scheduled maturity. The effect of the change in accounting for conduit debt on the Authority's net assets is shown as a cumulative effect of an accounting change in the Authority's statement of revenues, expenses and changes in net assets for the year ended December 31, 2004 and is composed of the following:

ELIMINATION OF ASSETS:	
Capital assets	$ 99,813,774
Restricted and other assets	50,759,689
Total assets	150,573,463
ELIMINATION OF LIABILITIES:	
Current liabilities	473,682
Current liabilities payable from restricted assets	17,459,672
Other liabilities—including amounts relating to restricted assets	132,896,206
Total liabilities	150,829,560
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$ 256,097

CONDENSED BALANCE SHEET INFORMATION

Condensed balance sheet information for the Authority as of December 31, 2005, 2004, and 2003, is as follows:

	December 31, 2005	December 31, 2004	December 31, 2003*
ASSETS:			
Current assets	$ 13,120,848	$ 12,667,461	$ 11,772,011
Capital assets	49,346,008	45,727,353	45,671,593
Restricted and other assets	75,242,315	64,475,923	46,086,467
Total assets	$ 137,709,171	$ 122,870,737	$ 103,530,071
LIABILITIES AND NET ASSETS:			
Liabilities:			
Current liabilities	$ 6,798,749	$ 6,824,363	$ 6,567,838
Current liabilities payable from restricted assets	5,552,205	4,357,305	4,123,660
Other liabilities—including amounts relating to restricted assets	81,334,461	69,294,465	52,815,819
Total liabilities	93,685,415	80,476,133	63,507,317
NET ASSETS:			
Invested in capital assets—net of related debt	30,143,525	28,651,967	26,776,223
Restricted for debt service	5,196,963	5,600,865	5,785,394
Unrestricted	8,683,268	8,141,772	7,461,137
Total net assets	44,023,756	42,394,604	40,022,754
Total liabilities and net assets	$ 137,709,171	$ 122,870,737	$ 103,530,071

*—As restated for the accounting change discussed previously.

The balance sheet fluctuations discussed below exclude the effect of the accounting change.

Current Assets: Current assets have increased from December 31, 2003 to December 31, 2005 as a result of higher cash and investment balances resulting from the Authority's operating activities.

Capital Assets: The Authority's investment in capital assets as of December 31, 2005, 2004, and 2003, amounted to $49.3 million, $45.7 million, and $45.7 million, respectively (net of accumulated depreciation). Capital assets before accumulated depreciation increased $5.7 million (10.8%) from December 31, 2003 to December 31, 2005. Accumulated depreciation increased nearly $2.1 million during the same period, offsetting the increase in the net capital asset amount before depreciation.

A summary of the activity in the Authority's capital assets during the years ended December 31, 2005, 2004, and 2003, is as follows:

2005	**Balance at Beginning of Year**	**Additions**	**Reductions**	**Balance at End of Year**
Land and land improvements	$19,823,017	$ -	$ -	$19,823,017
Buildings, infrastructures and leasehold improvements	33,410,652	11,913	(4,985)	33,417,580
Equipment	251,323	506,560		757,883
Construction in progress	492,702	4,791,969	(493,423)	4,791,248
	53,977,694	5,310,442	(498,408)	58,789,728
Less accumulated depreciation	(8,250,341)	(1,194,999)	1,620	(9,443,720)
Capital assets—net	$45,727,353	$4,115,443	$ (496,788)	$49,346,008

2004	**Balance at Beginning of Year**	**Additions**	**Reductions**	**Balance at End of Year**
Land and land improvements	$19,823,017	$ -	$ -	$ 19,823,017
Buildings, infrastructures and leasehold improvements	27,075,318	6,763,637	(428,303)	33,410,652
Equipment	221,312	34,736	(4,725)	251,323
Construction in progress	5,929,460	519,529	(5,956,287)	492,702
	53,049,107	7,317,902	(6,389,315)	53,977,694
Less accumulated depreciation	(7,377,514)	(1,057,700)	184,873	(8,250,341)
Capital assets—net	$45,671,593	$ 6,260,202	$(6,204,442)	$ 45,727,353

The major events affecting the Authority's capital assets during 2005 and 2004 were as follows:

- Approximately $4.8 million of construction in progress existed as of December 31, 2005 pertaining to the construction activities of one of the Authority's Bond Fund projects.
- During 2004, $6.6 million of construction costs related to an ore loader at the Authority's Cleveland Bulk Terminal were added to buildings, infrastructures and leasehold improvements. Approximately $6.0 million was in construction in progress at December 31, 2003. The ore loader was put into service early in 2004.

Restricted and Other Assets: The $29.2 million increase in restricted and other assets from December 31, 2003 to December 31, 2005 is related to additional transactions in the Authority's Bond Fund program. The Authority financed four new transactions in 2005 and five new transactions in 2004, resulting in $19.5 million and $23.6 million of additional restricted assets, respectively. The additional restricted assets were offset by the use of restricted assets to make scheduled payments of debt obligations by existing borrowers, the $3.8 million early redemption of the International Steel Group ("ISG") project debt (Series 2002B) and the $1.9 million early redemption of the Playhouse Square Foundation project debt (Series 2000A) in 2005 and 2004, respectively. Some additional information concerning the increase in restricted and other assets in 2005 and 2004 are provided below:

2005:

- Restricted cash and investments increased by $828,600 as the in-progress Fairmount Montessori and Columbia National Group construction projects had significant unspent proceeds at December 31, 2005.

- Financing lease receivables increased by nearly $4.2 million due to the Columbia National Group project (Series 2005C), which is accounted for as a financing lease.

- Notes and loans receivable increased nearly $5.6 million as a result of the completion of the Myers University and Goodyear Tire & Rubber projects, and costs incurred under the Fairmount Montessori project, which was in-progress a of December 31, 2005.

Debt issuance costs increased by nearly $204,000 as a result of the four new transactions mentioned above, offset by the amortization of the existing projects.

2004:

- Restricted cash and investments increased by $4.2 million as the in-progress Myers University and Garfield Heights construction projects had significant unspent proceeds at December 31, 2004.

- Financing lease receivables increased by nearly $2.7 million due to the completion during 2004 of the Heidtman Steel project.

- Notes and loans receivable increased nearly $10.0 million, as three additional projects were completed during the year (Luigino's, City of Cleveland and Tru-Fab) and two others (Myers University and City of Garfield Heights) were in progress at year-end.

Debt issuance costs increased by nearly $600,000 as a result of the five new transactions mentioned above.

Current Liabilities: Current liabilities decreased in 2005 approximately $26,000 as lower accounts payable and deferred income amounts were offset by increases in the current-portion of long-term debt related to Port Activities.

Current liabilities increased approximately $257,000 in 2004. Accounts payable at December 31, 2003 included a $560,000 liability recognized for the final construction bill (retainage) pertaining to the port entrance project, while accounts payable at December 31, 2004 includes a $650,000 liability related to the CBT ore loader project, resulting in a net increase of $90,000. Additionally, vendor payables rose by $161,000, the result of a vigorous cargo year, and there was a $40,000 increase in the current portion of the Authority's long-term bonds.

Current Liabilities Payable from Restricted Assets: This category includes accounts payable, interest payable, and the current portion of revenue bonds and notes. The increase of approximately $1.2 million in 2005 primarily resulted from:

- An increase of $183,000 in accrued interest payable as the Authority completed four new transactions in the Bond Fund in 2005.

- A decrease of $620,000 in the current portion of revenue bonds and notes, mainly resulting from the early redemption of the ISG bonds (of which $1.2 million were due in 2005), offset by the increase due to the four new transactions in 2005.

- An increase in accounts payable from restricted assets of $1.6 million, as the Columbia National Group project and Fairmount Montessori projects were in progress as of December 31, 2005.

The increase of approximately $233,000 in 2004 primarily resulted from:

- An increase of $76,000 in accrued interest payable as the Authority completed five new transactions in the Bond Fund in 2004.

- An increase of $320,000 in the current portion of revenue bonds and notes as more projects were added and existing projects mature, resulting in large required principal payments.

- A decrease in accounts payable from restricted assets of $162,000, as there were only two projects that had not been completed at year-end in 2004.

Other Liabilities Including Amounts Relating to Restricted Assets: This line item includes deferred income, bond reserve deposits, and revenue bonds and notes payable, net of the current portion. Collectively, the total increased $12.0 million during 2005. The main reason for the increase was the additional $19.5 million of bonds issued in 2005 under the Bond Fund program, offset by scheduled principal reductions, the early redemption of the ISG bonds and $2.0 million in Tax Anticipation Notes classified as a current liability as of December 31, 2005.

The main reason for the $16.5 million increase in 2004 was $23.6 million of additional bonds issued under the Bond Fund program, offset by scheduled principal reductions, the early redemption of the Playhouse Square bonds and $2.0 million in Tax Anticipation Notes classified as a current liability as of December 31, 2004.

The activity in the Authority's debt obligations outstanding during the years ended December 31, 2005 and 2004 is summarized below (unamortized premiums and discounts have been combined into the appropriate increase/decrease columns):

2005	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
Cleveland Bulk Terminal	$ 5,385,764	$ 83,105	$ (60,000)	$ 5,408,869
Bond Fund Activities	63,141,349	19,547,560	(6,435,000)	76,253,909
Tax Anticipation Notes	4,037,122		(1,996,409)	2,040,713
State of Ohio 166 Loan	536,837		(43,675)	493,162
Total	$73,101,072	$19,630,665	$(8,535,084)	$84,196,653

2004	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
Cleveland Bulk Terminal	$ 5,353,699	$ 92,065	$ (60,000)	$ 5,385,764
Bond Fund Activities	44,427,662	23,628,687	(4,915,000)	63,141,349
Tax Anticipation Notes	6,004,218		(1,967,096)	4,037,122
State of Ohio 166 Loan	578,801		(41,964)	536,837
Total	$ 56,364,380	$ 23,720,752	$ (6,984,060)	$ 73,101,072

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

Net Assets: Net Assets serves as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by $1.6 million at the close of the most recent fiscal year.

The largest portion of the Authority's net assets (approximately 68%) represents its investment in capital assets (e.g., land, land improvements, buildings, infrastructures, leasehold improvements and equipment), net of accumulated depreciation, less any related outstanding debt used to acquire those assets. Further analysis reveals that substantially all of this amount relates to capital assets used in Port Activities. This is because of the two distinctly different natures of the Authority's business lines:

- The maritime operations of the core Port Activities are heavily dependent upon capital assets to generate income.

- The development finance function is dependent upon the *financing* portion of the projects, *not* any resulting capital assets, to generate fee income. Capital assets (which are only recorded in connection with the two Bond Fund financing projects that involve operating leases) are often depreciated at a faster rate than principal payments are required under the related debt, which generates the negative net asset amount. All development finance projects are structured so that the third party lease, loan or other required payments cover 100% of the debt service costs. The Authority's fee income is in excess of these components.

Of the net assets restricted for debt service, approximately $1.0 million relates to Port Activities and primarily represents cash that is reserved for debt service payments on the Authority's own debt issues. The remainder of the net assets restricted for debt service relates to the Authority's development finance projects.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION

The Authority's operations increased its net assets by $1.6 million, $2.4 million, and $1.8 million in 2005, 2004, and 2003, respectively. Key elements of these changes are summarized below:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003*
OPERATING REVENUES:			
Wharfage, dockage and storage	$ 767,502	$ 1,073,565	$ 704,947
Property lease and rentals	1,916,488	1,680,456	1,756,998
Other fee and rental income	2,162,082	2,009,293	1,301,801
Third party contributions and other	498,939	713,158	608,084
Total operating revenues	5,345,011	5,476,472	4,371,830
OPERATING EXPENSES	6,740,415	5,922,411	5,542,604
OPERATING LOSS	(1,395,404)	(445,939)	(1,170,774)
NONOPERATING REVENUES (EXPENSES):			
Property tax receipts	3,264,054	3,284,624	3,261,779
Income from investments—financing leases and notes receivable	4,198,425	3,404,801	3,143,398
Interest expense	(4,531,874)	(3,991,898)	(3,418,557)
Write-off of property associated with early lease termination		(248,156)	
Other—net	93,951	(25,744)	(19,111)
Total nonoperating revenues—net	3,024,556	2,423,627	2,967,509
INCREASE IN NET ASSETS BEFORE CAPITAL GRANT ACTIVITY	1,629,152	1,977,688	1,796,735
CAPITAL GRANT		394,162	
INCREASE IN NET ASSETS	$ 1,629,152	$ 2,371,850	$ 1,796,735

*—As restated for the accounting change discussed previously.

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

Operating Revenues: Collectively, operating revenues decreased 2.4% from $5.5 million in 2004 to $5.3 million in 2005. Operating revenues increased 25% from $4.4 million in 2003 to $5.5 million in 2004. These changes are related to Port Activities, as operating revenues for Bond Fund transactions remained consistent during each of the years. A discussion of the components of operating revenues and the corresponding changes are as follows.

Wharfage, Dockage, and Storage: These revenues are generated from Port cargo movements and they collectively decreased 29% from $1.07 million in 2004 to approximately $768,000 in 2005. This was primarily the result of a 35% decrease in steel cargo movements from 2004 levels.

During 2004, wharfage, dockage and storage revenues increased 52% from $705,000 in 2003 to $1.07 million in 2004. This was primarily the result of a 32% increase in international steel cargo movements and increased iron ore throughput at the Authority's Cleveland Bulk Terminal following the January start-up of a new ore loader.

Property Lease and Rentals: The $236,000 or 14% increase in property lease and rentals is partially related to the property rentals category, which increased to $843,000 from $634,000 in 2004. Federal Marine Terminals leased additional warehouse space in 2005, which was the main reason for the increase in property rentals. Additionally, the Dock 20 rental increased by nearly $44,000 as Kenmore Construction leased an additional 4 acres of property. The other sources of revenue for this category, (1) ESSROC's land lease ($124,700); (2) the Great Lakes Towing lease of the Old River Property ($72,200); and (3) Oglebay Norton's lease of Cleveland Bulk Terminal ($378,800) remained relatively consistent with their 2004 levels.

The $77,000 decrease in property lease and rentals in 2004 is almost entirely related to less warehouse space being leased than in the prior year.

Other Fee and Rental Income: The most significant component of this revenue category is development finance fees, which increased from $.8 million in 2003 to $1.4 million in 2004 and $1.5 million in 2005. Development finance fee income is earned four different ways: (1) closing fees, which are one-time fees charged on conduit and Bond Fund projects based on the amount financed; (2) bond service fees, which are ongoing annual fees charged on all projects based on the outstanding principal; (3) Bond Fund application fees; and (4) Bond Fund acceptance fees. The increase in these fees was due to the Authority conducting new Bond Fund transactions, new conduit debt financings and revenues received as part of the New Markets Tax Credit Program (see footnote 15 to the financial statements).

Other components of Other Fee and Rental Income include parking revenue (approximately $270,000—stable since 2003) and Foreign Trade Zone fees (up 39% in 2004 and 38% in 2005 to $420,000 due to General Purpose Zone expansions and increased applications).

Third Party Contributions and Other—This line item includes three activities:

- *Ferry feasibility grant*—In late 2002, the Authority received a reimbursement grant from the federal Ferry Boat Program in the amount of $800,000 for the Cleveland-Cuyahoga County Port Authority Ferry Feasibility Study and Implementation Project (the "Study"). The Study itself was completed in 2004 and incorporates Canadian industry, tourism and governmental feasibility data. Additional consulting services related to the establishment of the ferry service are ongoing. The grant required a 20% ($200,000) local match from the Authority. Approximately $68,000, $351,000, and $336,000 of the grant was recognized in 2005, 2004 and 2003, respectively.

North Coast Harbor—$389,000 of the third party contributions and other revenue in 2005 relates to the North Coast Harbor component of Port Activities. It represents required contributions to the Common Area Maintenance ("CAM") and Capital Repairs Funds from the CAM Agreement participants (Rock & Roll Hall of Fame and Museum, Great Lakes Science Center, and Cleveland Browns). These contributions fund the North Coast Harbor maintenance and repair expenses. Fluctuations from year to year are dependent upon the annual maintenance cost and capital projects that the group undertakes each year. This amount is higher than the 2004 and 2003 CAM contributions of $233,000 and $239,000, respectively, as it includes income from parking operations which were established in 2005 in order to fund future capital improvements and to pay for the services of a professional event planning contractor to promote and manage NCH events.

Crane rental—Rental income from the Port's heavy lift crane, the Buckeye Booster, was $31,000, $129,000 and $33,000 in 2005, 2004, and 2003, respectively. Heavy lifts usually consist of large pieces of machinery for manufacturing facilities. Activity picked up dramatically in 2004 and dropped in 2005 to a level more consistent with prior periods. There was one major heavy lift for a local steel mill in 2004 that accounted for most of the increase in that year.

OPERATING EXPENSES

Operating expenses increased approximately $818,000 (14%) in 2005 compared to 2004. The largest change ($318,000) occurred in the salaries and benefits line item expense due to the full-year impact of additional staffing added in 2004, coupled with additional hires in 2005.

During 2004, operating expenses increased approximately $380,000 (7%) from 2003. The largest change ($287,000) occurred in depreciation expense for Port Activities, primarily because the Authority began depreciating the $6.6 million Cleveland Bulk Terminal ore loader. Depreciation relating to Bond Fund activities remained consistent with the 2003 levels.

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

The increase in these operating expenses during 2005 is detailed below:

- $137,000 increase in depreciation resulting from normal depreciation of existing assets, plus the full-year effect of assets capitalized in 2004 and additional assets purchased in 2005.

- $56,000 increase in marketing and communications expense as the Authority continued to enhance its communications programs, particularly in the areas marketing both the Authority's maritime and development finance capabilities via print advertising.

- $155,000 increase in professional services principally due to a number of factors:

    - An $84,000 increase in legal expenses resulting from a now-abandoned eminent domain action on property on Whiskey Island and arbitration costs relating to the CBT ore loader project.

    - $50,000 in expenses to retain an executive search firm to assist with the process of replacing the retiring President & CEO.

    - The payment of $65,000 toward a portion of the cost of a diversity supplier initiative study.

    - $50,000 in expenses related to the retention of a federal government relations firm, an action driven by the numerous capital projects that are in the Authority's pipeline (ferry terminal, CBT roadway, potential relocation of port facilities to the west).

    - An increase of $100,000 in North Coast Harbor expenses as the result of the engagement of a professional event management firm.

    - A $50,000 increase in banking fees associated with increasing the amount of the Bond Fund Program Reserve Letter of Credit.

- A $255,000 reduction of expenses related to the ferry grant as the feasibility phase of the project begins to wind down.

- $109,000 increase in facilities lease and maintenance expense resulted from increased security costs and an increase in repair and maintenance activities.

During 2004, other operating expenses increased by $93,000 as a result of the following:

- A $189,000 increase in salaries and benefits from the addition of two new positions and the first full year of expense for two other positions.

- A $166,000 increase in marketing and communications expense occurred as the Authority continued to enhance its communications programs. Areas of focus included aggressively marketing both the Authority's maritime and development finance capabilities via print advertising, updating the Authority's website, and the development/revision of the Authority's schools program.

These increases in 2004 were offset by savings in the following operating expense line items:

- A reduction of $141,000 in professional services occurred in part due to a one-time 2003 expense related to both the Authority's $125,000 contribution to the funding of a Lakefront Plan undertaken by the City of Cleveland, and to the contracting of a $16,000 cargo capacity study. Expenses related to the ferry grant also decreased by $179,000 as the Ferry Feasibility Study (the most expensive single component of the project) was completed. These decreases were offset by a $107,000 increase in legal fees primarily relating to the Authority's now-abandoned bid for a property on Whiskey Island. Costs for the services of governmental relations firms also increased by $70,000.

- A $195,000 reduction in facilities lease and maintenance expense mainly due to a reduction of facilities repair and maintenance expenses. Additionally, the Authority's lease payments to the City of Cleveland were reduced when Dock 32 was returned to the City late in 2004.

NONOPERATING REVENUES (EXPENSES)

Net nonoperating revenues increased approximately $.6 million (25%) in 2005 to $3.0 million compared to $2.4 million in 2004. The most significant changes were:

- *Income from investments, financing leases and notes receivable*—The largest component of this line is by far the interest income recognized on Bond Fund financing leases and notes receivable. The $794,000 (23%) increase is a function of the four new projects which were financed during 2005, coupled with the full-year impact of projects which closed in the 4th quarter of 2004.

- *Interest expense*—The $540,000 increase in interest expense is entirely related to the four new Bond Fund transactions in 2005 and their associated interest expense, totaling $347,000. Additionally, there was an entire 12 months of interest for projects that closed late in 2004 (Garfield Heights and Myers University), which had $693,000 in higher interest costs than in the previous year. These two large increases were offset by the early redemption (in February 2005) of the ISG bonds, which resulted in $297,000 less interest costs in 2005 than in 2004. The remaining decreases related to existing projects as interest expense decreases as principal on the bonds is paid.

- *Write-off of property associated with early lease termination*—In August 2004, the Authority returned Dock 32 to the City of Cleveland. This amount reflects the elimination of the net book value of the leasehold improvements (warehouse and dock) which were made to the property during the Authority's 36-year lease term. There were no material write-offs in 2005.

- *Other-net*—The $120,000 increase in other-net nonoperating revenues relates to a $150,000 back payment of submerged land lease revenues that were received in 2005. This increase was offset by a $27,000 increase in other expenses (trustee fees) relating to Bond Fund activities from the four new Bond Fund transactions in 2005.

Net nonoperating revenues decreased approximately $544,000 in 2004 to $2.4 million (18%) from 2003. The most significant changes were:

- *Income from investments, financing leases and notes receivable*—The $262,000 (8%) increase is a function of the five new Bond Fund projects which were financed during 2004.

- *Interest expense*—The $573,000 increase in interest expense is entirely related to the five new Bond Fund transactions and their associated interest expense, totaling $516,000. Additionally, there was an entire 12 months of interest for the sole 2003 project (Heidtman Steel), which had $193,000 in higher interest costs than in 2003. These two large increases were offset by existing projects as interest expense decreases as principal on the bonds is paid.

NET ASSETS

The following chart details the Authority's net assets at December 31, 2005, 2004, and 2003:

	December 31,		
	2005	2004	2003
Total	$ 44,023,756	$ 42,394,604	$ 40,022,754

Total net assets increased by $1.6 million (or 3.8%) in 2005 and $2.4 million (or 6%) in 2004. In 2005, Port Activities generated approximately $1.5 million of the increase and Bond Fund Activities added an additional $.1 million to net assets before transfers. In 2004, the Port generated almost $2.0 million in income before capital grant activity. The recognition of $.4 million of Port security capital grants is responsible for the remaining portion of the change in 2004.

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

After a slower cargo year in 2005 than in 2004, maritime revenues and expenses should be slightly higher in 2006. The Development Finance Group has budgeted revenues for 2006 in a manner similar to 2005. It is generally expected that Port Activities results will remain stable in 2006.

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and investments	$ 9,193,854	$ 8,499,857
Accounts receivable	369,593	674,460
Property taxes receivable	3,300,000	3,300,000
Other receivables	60,925	27,792
Prepaid expenses	196,476	165,352
Total current assets	13,120,848	12,667,461
CAPITAL ASSETS:		
Land and land improvements	19,823,017	19,823,017
Buildings, infrastructures, and leasehold improvements	33,417,580	33,410,652
Equipment	757,883	251,323
Construction in progress	4,791,248	492,702
Total	58,789,728	53,977,694
Less accumulated depreciation	9,443,720	8,250,341
Net book value of capital assets	49,346,008	45,727,353
RESTRICTED AND OTHER ASSETS:		
Restricted cash and investments	19,047,734	18,219,167
Financing lease receivables	13,927,513	9,728,259
Operating lease receivable	551,983	591,402
Notes and loans receivable	39,056,068	33,464,865
Debt issuance costs	2,522,729	2,318,690
Other	136,288	153,540
Total restricted and other assets	75,242,315	64,475,923
TOTAL	$137,709,171	$122,870,737

(Continued)

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Accounts payable	$ 823,253	$ 913,795
Deferred income	3,432,771	3,455,205
Accrued wages and benefits	181,556	156,689
Current portion of bonds to be repaid by the Authority:		
Cleveland Bulk Terminal Project	60,000	60,000
Bond Fund activities—Port Capital Improvements	215,000	200,000
Tax Anticipation Notes	2,040,713	1,995,000
State of Ohio 166 Loan	45,456	43,674
Total current liabilities	6,798,749	6,824,363
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable	2,141,610	510,184
Accrued interest payable	630,595	447,121
Current portion of revenue bonds and notes—Bond Fund activities	2,780,000	3,400,000
Total current liabilities payable from restricted assets	5,552,205	4,357,305
OTHER LIABILITIES—Including amounts relating to restricted assets:		
Deferred income	1,100,195	941,229
Revenue bonds and notes, net of current portion:		
Cleveland Bulk Terminal Project	5,348,869	5,325,764
Bond Fund activities	73,258,909	59,541,349
Tax Anticipation Notes		2,042,122
State of Ohio 166 Loan	447,706	493,163
Debt repayment security deposits payable	1,010,047	935,838
Other	168,735	15,000
Total other liabilities	81,334,461	69,294,465
Total liabilities	93,685,415	80,476,133
NET ASSETS:		
Invested in capital assets, net of related debt	30,143,525	28,651,967
Restricted for debt service	5,196,963	5,600,865
Unrestricted	8,683,268	8,141,772
Total net assets	44,023,756	42,394,604
TOTAL	$137,709,171	$122,870,737

See notes to financial statements. (Concluded)

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Wharfage, dockage and storage	$ 767,502	$ 1,073,565
Property lease and rentals	1,916,488	1,680,456
Other fee and rental income	2,162,082	2,009,293
Third-party contributions and other	498,939	713,158
Total operating revenues	5,345,011	5,476,472
OPERATING EXPENSES:		
Salaries and benefits	2,088,045	1,769,826
Professional services	1,321,175	1,166,025
Facilities lease and maintenance	1,084,914	976,036
Marketing and communications	457,727	401,802
Depreciation expense	1,194,999	1,057,700
Office expense	290,760	271,510
Other expense	302,795	279,512
Total operating expenses	6,740,415	5,922,411
OPERATING LOSS	(1,395,404)	(445,939)
NONOPERATING REVENUES (EXPENSES):		
Property tax receipts	3,264,054	3,284,624
Income from investments, financing leases and notes receivable	4,198,425	3,404,801
Interest expense	(4,531,874)	(3,991,898)
Writeoff of property associated with early lease termination		(248,156)
Other—net	93,951	(25,744)
Total nonoperating revenues—net	3,024,556	2,423,627
INCREASE IN NET ASSETS BEFORE CAPITAL GRANT ACTIVITY	1,629,152	1,977,688
CAPITAL GRANT		394,162
INCREASE IN NET ASSETS	1,629,152	2,371,850
NET ASSETS—Beginning of year:		
As previously reported	42,394,604	39,766,657
Cumulative effect of accounting change		256,097
As restated	42,394,604	40,022,754
NET ASSETS—End of year	$ 44,023,756	$ 42,394,604

See notes to financial statements.

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING ACTIVITIES:		
Receipts from customers	$ 5,811,246	$ 5,349,554
Receipts from other governments	66,630	325,484
Payments to suppliers for goods and services	(3,479,688)	(3,013,901)
Payments to employees	(1,603,820)	(1,362,433)
Payments of employee benefits	(442,727)	(378,003)
Net cash provided by operating activities	351,641	920,701
NONCAPITAL FINANCING ACTIVITIES:		
Net proceeds from property tax collections	3,264,835	3,283,842
Other nonoperating revenues	115,431	(13,528)
Net cash provided by noncapital financing activities	3,380,266	3,270,314
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net proceeds from the issuance of bonds and notes	18,921,016	22,531,770
Principal paid on revenue bonds and notes (including premiums paid on early redemption)	(8,533,674)	(7,121,750)
Interest paid on revenue bonds and notes	(4,003,287)	(3,493,028)
Construction loans made	(12,684,367)	(17,550,228)
Principal received on notes receivable and financing leases	5,226,029	4,232,410
Interest received on notes receivable and financing leases	2,654,134	2,887,099
Acquisition and construction of capital assets	(4,715,909)	(1,757,490)
Capital grants received	75,255	318,907
Other	176,372	287,836
Net cash provided by capital and related financing activities	(2,884,431)	335,526
INVESTING ACTIVITIES:		
Purchase of investment securities	(24,486,189)	(18,268,499)
Proceeds from sale and maturity of investment securities	21,308,198	14,640,346
Interest on investments	723,581	439,516
Net cash used in investing activities	(2,454,410)	(3,188,637)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,606,934)	1,337,904
CASH AND CASH EQUIVALENTS—Beginning of year	11,947,342	10,609,438
CASH AND CASH EQUIVALENTS—End of year	$ 10,340,408	$ 11,947,342

(Continued)

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
OPERATING LOSS	$ (1,395,404)	$ (445,939)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,194,999	1,057,700
Changes in assets and liabilities:		
Accounts receivable	277,510	(152,388)
Operating lease receivables	39,420	15,354
Prepaid expenses and other assets	(39,452)	(13,674)
Accounts payable	29,231	96,033
Deferred income	220,934	335,599
Accrued wages and benefits	24,403	28,016
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 351,641	$ 920,701
RECONCILIATION CASH AND INVESTMENTS REPORTED ON THE BALANCE SHEETS TO CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENTS OF CASH FLOWS:		
Balance sheet cash and investment amounts:		
Included in current assets	$ 9,193,854	$ 8,499,857
Included in restricted and other assets	19,047,734	18,219,167
Total	28,241,588	26,719,024
Investments included in the balances above that are not cash equivalents	(17,901,180)	(14,771,682)
Cash and cash equivalents reported in the statements of cash flows	$ 10,340,408	$ 11,947,342

See notes to financial statements. (Concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Authority's activities are financed and operated as an enterprise fund such that the costs and expenses, including depreciation, of providing the services are recovered primarily through user charges and property taxes. The measurement focus is on the determination of revenues, expenses, financial position, and cash flows as the identification of these items is necessary for appropriate capital maintenance, public policy, management control, and accountability. The Authority's financial transactions are recorded on the accrual basis of accounting; revenues are recognized when earned and expenses are recognized as incurred. Revenues received in advance are deferred and recognized as earned over the period to which they relate.

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

***Change in Accounting for Conduit Debt*—**As part of its efforts to promote economic development within northeastern Ohio, over the past several years, the Authority has issued debt obligations and loaned the proceeds to industrial, commercial, governmental and nonprofit organizations, primarily located within Cuyahoga County, Ohio. The obligations are secured by the property financed and are payable solely from the payments received by the trustee from the borrowers or other sources designated in the related agreements. Prior to 2004, the Authority reported these conduit debt obligations on its balance sheet, along with any related assets. Because the obligations do not constitute a debt or pledge of the full faith and credit of the Authority, effective January 1, 2004, the Authority changed its accounting for conduit debt by removing the conduit debt obligations and related assets from its balance sheet as permitted under Interpretation No. 2 of the GASB, *Disclosure of Conduit Debt Obligations*. Because of the removal of the conduit debt obligations from the balance sheet and the fact that the Authority has no responsibility to service the conduit debt obligations after they are issued, effective January 1, 2004, the Authority also began recognizing any fees associated with the conduit debt transactions in income as they are received rather than over the period the debt is outstanding. Such fees are not recognized in income prior to receipt because they will only be paid while the related debt is outstanding and are subject to the risk that the debt will be prepaid in advance of its scheduled maturity. The effect of the change in accounting for conduit debt on the Authority's net assets is shown as a cumulative effect of an accounting change in the accompanying statement of revenues, expenses and changes in net assets for the year ended December 31, 2004, and is composed of the following:

ELIMINATION OF ASSETS:		
Capital assets:		
Land and land improvements	$ 8,499,077	
Buildings, infrastructures, and leasehold improvements	91,382,223	
Equipment	8,505,681	
Total	108,386,981	
Less accumulated depreciation	8,573,207	
Net book value of capital assets	99,813,774	
Restricted and other assets:		
Restricted cash and investments	11,319,852	
Lease receivable—Rock and Roll Hall of Fame and Museum	24,480,000	
Financing lease receivables	2,128,792	
Operating lease receivables	4,152,741	
Notes and loans receivable	339,024	
Prepaid ground lease	4,453,600	
Debt issuance costs	3,861,304	
Other	24,376	
Total restricted and other assets	50,759,689	
Total assets		$ 150,573,463
ELIMINATION OF LIABILITIES:		
Current liabilities—deferred income	473,682	
Current liabilities payable from restricted assets:		
Accounts payable	401,840	
Accrued interest payable	1,244,486	
Current portion of revenue bonds and notes	15,813,346	
Total current liabilities payable from restricted assets	17,459,672	
Other liabilities—including amounts relating to restricted assets:		
Deferred income	90,918	
Lease deposit	5,000,000	
Revenue bonds and notes—net of current portion	127,805,288	
Total other liabilities	132,896,206	
Total liabilities		150,829,560
CUMULATIVE EFFECT OF ACCOUNTING CHANGE		$ 256,097

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

Fixed Assets and Depreciation—The Authority capitalizes and records fixed asset additions or improvements at historical cost. Expenditures for maintenance and repairs are charged to operating expenses as incurred. Adjustments of the assets and the related depreciation reserve accounts are made for retirements and disposals with the resulting gain or loss included in income. Depreciation begins when an asset is placed in service and is determined by allocating the cost of fixed assets over their estimated useful lives on the straight-line basis.

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

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

Debt Issuance Costs—The costs associated with the issuance of the Authority's revenue bonds and notes in the Bond Fund are deferred and recognized as interest cost over the period the related debt is outstanding using the interest method.

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

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

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

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

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

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

Lease Accounting—The Authority classifies leases at the inception of each lease in accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, except for leases which are not recognized for accounting purposes under Interpretation No. 2 of the Governmental Accounting

Standards Board, *Disclosure of Conduit Debt Obligations*, because they secure the repayment of conduit debt.

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

Financing Lease Income**—**At the inception of a financing lease, the present value of future rentals and the residual are recorded as the net investment in the direct financing lease. Unearned interest income is amortized to interest income over the lease term to produce a constant percentage return on the investment.

Income from Loans—Interest and financial fees received for loans and tax increment financings pertaining to Bond Fund Program transactions (see Note 8) are recognized as nonoperating income over the contractual lives of the related loans.

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

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

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

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

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

New Accounting Standards—During March 2003, the GASB issued Statement No. 40, *Deposits and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. This Statement addresses disclosures related to common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The provisions of this Statement were implemented by the Authority in 2005 (see Note 2).

During November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. Under the provisions of this Statement, a capital asset is considered impaired when its service has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement were implemented by the Authority in 2005. This statement had no significant impact on the Authority's financial statements.

During August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which addresses how state and local governments should account and report their costs and obligations related to postemployment health care and other non-pension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement No. 45 will not be effective for the Authority until 2008 and, as such, the Authority has not determined the impact, if any, that this statement will have on its financial statements.

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

2. CASH AND INVESTMENTS

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

Custodial risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At December 31, 2005 and 2004, the carrying amounts of the Authority's deposits were $2,719,333 and $3,536,976, respectively, and the related bank balances were $3,273,050 and $3,859,111, of which $100,135 and $100,131 were covered by federal depository insurance and $3,172,915 and $3,758,980 were uninsured and uncollateralized as defined by the GASB.

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

Investments made under the Authority's Bond Fund Program (see Note 8) must also comply with the specific terms of the related trust agreement.

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

Substantially all of the Authority's investments at December 31, 2005 are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Authority's name.

At December 31, 2005 and 2004, the fair value of the Authority's investments was as follows:

	December 31,	
Description	**2005**	**2004**
Money market fund	$ 7,621,076	$ 8,410,366
Commercial paper	4,964,799	4,365,242
Federal Home Loan Bank obligations	3,388,780	2,515,228
Federal Home Loan Mortgage Corporation obligations	2,608,531	1,882,000
Guaranteed investment contract	2,591,105	3,054,434
Federal National Mortgage Association obligations	2,461,067	1,678,564
U.S. Treasury Bills	1,886,897	1,276,214
Total investments	$25,522,255	$23,182,048

Interest Rate Risk—The Authority's investment policies limit its investment portfolio to maturities of 5 years or less, unless the specific terms of a trust agreement within the Board Fund Program (see Note 8) permit otherwise. All of the Port's investments at December 31, 2005 and 2004 have effective maturity dates of less than 5 years. The following table presents the Authority's investments at December 31, 2005 by length of maturity:

Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
Money market fund	$ 7,621,076	$ 7,621,076	$ -	$ -	$ -
Commercial paper	4,964,799	4,964,799			
Federal Home Loan Bank obligations	3,388,780	1,154,351	2,234,429		
Federal Home Loan Mortgage Corporation obligations	2,608,531	649,731	1,958,800		
Guaranteed investment contract	2,591,105	2,591,105			
Federal National Mortgage Association obligations	2,461,067	691,315	1,769,752		
U.S. Treasury Bills	1,886,897	1,886,897			
Total	$ 25,522,255	$ 19,559,274	$ 5,962,981	$ -	$ -

Credit Risk—Credit quality ratings provide information about an investment's credit risk, which is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following table presents the credit ratings of the Authority's investments at December 31, 2005:

Investment Type	**Fair Value**	**AAA and A-1**	**AA, A and BBB**	**Below BBB**
Money market fund	$ 7,621,076	$ 7,621,076	$ -	$ -
Commercial paper	4,964,799	4,964,799		
Federal Home Loan Bank obligations	3,388,780	3,388,780		
Federal Home Loan Mortgage Corporation obligations	2,608,531	2,608,531		
Guaranteed investment contract	2,591,105		2,591,105	
Federal National Mortgage Association obligations	2,461,067	2,461,067		
U.S. Treasury Bills	1,886,897	1,886,897		
Total	$ 25,522,255	$ 22,931,150	$ 2,591,105	$ -

3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2005 and 2004 was as follows:

	Balance at January 1, 2005	**Additions**	**Deletions**	**Balance at December 31, 2005**
Capital assets not being depreciated:				
Land and land improvements	$ 19,823,017	$ -	$ -	$ 19,823,017
Construction in progress	492,702	4,791,969	(493,423)	4,791,248
Total capital assets not being depreciated	20,315,719	4,791,969	(493,423)	24,614,265
Capital assets being depreciated:				
Buildings, infrastructures and leasehold improvements	33,410,652	11,913	(4,985)	33,417,580
Equipment	251,323	506,560		757,883
Total capital assets being depreciated	33,661,975	518,473	(4,985)	34,175,463
Less accumulated depreciation:				
Buildings, infrastructures and leasehold improvements	8,053,678	1,107,448	(1,620)	9,159,506
Equipment	196,663	87,551		284,214
Total accumulated depreciation	8,250,341	1,194,999	(1,620)	9,443,720
Total capital assets being depreciated, net	25,411,634	(676,526)	(3,365)	24,731,743
Capital assets, net	$ 45,727,353	$ 4,115,443	$ (496,788)	$ 49,346,008

	Balance at January 1, 2004*	Additions	Deletions	Balance at December 31, 2004
Capital assets not being depreciated:				
Land and land improvements	$ 19,823,017	$ -	$ -	$ 19,823,017
Construction in progress	5,929,460	519,529	(5,956,287)	492,702
Total capital assets not being depreciated	25,752,477	519,529	(5,956,287)	20,315,719
Capital assets being depreciated:				
Buildings, infrastructures and leasehold improvements	27,075,318	6,763,637	(428,303)	33,410,652
Equipment	221,312	34,736	(4,725)	251,323
Total capital assets being depreciated	27,296,630	6,798,373	(433,028)	33,661,975
Less accumulated depreciation:				
Buildings, infrastructures and leasehold improvements	7,191,133	1,042,692	(180,147)	8,053,678
Equipment	186,381	15,008	(4,726)	196,663
Total accumulated depreciation	7,377,514	1,057,700	(184,873)	8,250,341
Total capital assets being depreciated—net	19,919,116	5,740,673	(248,155)	25,411,634
Capital assets, net	$ 45,671,593	$ 6,260,202	$ (6,204,442)	$ 45,727,353

*—As restated for the accounting change discussed in Note 1.

4. RETIREMENT AND POSTEMPLOYMENT BENEFIT PLANS

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

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

2. *The Member-Directed Plan* (MD)—a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

3. *The Combined Plan* (CO)—a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements and required supplementary information. The financial report may be obtained by making a written request to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6701 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. The Authority's employees are required to contribute 8.5% of their covered payroll to OPERS. The employer contribution rate for local government employer units was 13.55% of covered payroll in 2005 and 2004, including 4.00% that is used to fund postretirement health care benefits. The Authority's total contributions to OPERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 2005, 2004, and 2003 were $153,205, $135,522, and $104,322 which equaled 100% of the required contributions for each year.

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

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. During 2005 and 2004, the Authority's total contributions to OPERS used to fund health care were $64,170 and $56,763, respectively. At December 31, 2005, the Authority was not responsible for paying premiums, contributions or claims for OPEB under OPERS or any other plan for retirees, terminated employees or other beneficiaries.

OPEB is advance-funded on an actuarially determined basis through employer contributions and investment earnings thereon. The principal assumptions used for the 2004 actuarial computations (latest available) were as follows:

> ***Funding Method—***An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
>
> ***Assets Valuation Method—***All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.
>
> ***Investment Return***—The investment assumption rate for 2004 was 8.00%.
>
> ***Active Employee Total Payroll***—An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from .50% to 6.30%.

Health Care—Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

At December 31, 2005 and 2004, there were 376,109 and 355,287, respectively, active contributing participants. In addition, at December 31, 2004 (latest information available), the actuarial value of the plan's net assets available for OPEB approximated $10.8 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were $29.5 billion and $18.7 billion, respectively.

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

5. PROPERTY TAXES

Property taxes received by the Authority represent a special levy of .13 mills to fund the Authority's operations. The tax is levied against all real, public utility and tangible (used in business) property located in Cuyahoga County. The 2004 levy (collected in 2005) was based upon an assessed valuation of approximately $30.6 billion. The current levy continues through 2008.

Real property taxes are levied each January 1 on the assessed value listed as of the prior January 1. Assessed values are established by the County Auditor at 35% of appraised market value. A revaluation of all property is required to be completed no less than every six years, with a statistical update every third year. The last valuation was completed in 2003. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 88% of cost). Tangible personal property is assessed at 25% of the true value of the property.

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

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

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

6. NORTH COAST HARBOR

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

7. CLEVELAND BULK TERMINAL

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

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

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

The Refunding Bonds are payable in quarterly installments through 2031 and are not general obligations of, and are not secured by, the full faith and credit of the Authority. The repayment terms of the Refunding Bonds enable the holders of the bonds to demand payment prior to maturity under certain circumstances. As a result, the Authority has executed a remarketing agreement and a letter of credit with a financial institution which requires the financial institution to use its best efforts to resell any portion of the bonds presented for payment prior to their scheduled maturity. The letter of credit, which expires on June 22, 2006, provides assurance that funds will be available through the financial institution to redeem any non-marketable bonds prior to their maturity. The repayment of a portion of the principal and interest due under the Refunding Bonds is guaranteed by Oglebay Norton Company.

The Refunding Bonds bear interest at a variable rate as determined by a remarketing agent based upon current transactions in comparable securities that enable the agent to remarket the notes at par. The interest rate on the Refunding Bonds was 4.55% and 2.55% on December 31, 2005 and 2004, respectively. Two interest rate exchange agreements ("swaps") are used to limit the Authority's interest rate exposure on the Refunding Bonds. The swaps provide for interest to be received based on notional amounts at variable rates and for interest to be paid on the same notional amounts at fixed rates. The fixed interest rates do not change over the life of the agreements, which expire in fiscal 2007 and 2017. The variable rates are reset every quarter, are based on LIBOR and are settled with the counterparties to the swaps at that time. These swap agreements are not used for trading purposes and effectively change the base interest rate exposure on the Refunding Bonds to a fixed rate of 5.81%, through March 1, 2007 and a fixed rate of 4.83% thereafter through March 2, 2017. The notional amount of the swaps at December 31, 2005 approximated the outstanding balance on the Refunding Bonds.

The bonds outstanding at December 31, 2005, are payable as follows (assuming that the interest rate is able to be fixed at 4.83% after the expiration of the existing swaps in 2017):

Year	Principal	Interest	Total
2006	$ 60,000	$ 326,123	$ 386,123
2007	105,000	274,380	379,380
2008	125,000	256,621	381,621
2009	140,000	250,592	390,592
2010	140,000	243,849	383,849
2011-2015	810,000	1,113,646	1,923,646
2016-2020	1,020,000	893,940	1,913,940
2021-2025	1,305,000	616,292	1,921,292
2026-2030	1,650,000	262,653	1,912,653
2031	190,000	3,382	193,382
Total payments	5,545,000	4,241,478	9,786,478
Unamortized loss on defeasance	(136,131)		(136,131)
Total	$5,408,869	$4,241,478	$9,650,347

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

Year	Amount
2006	$ 725,000
2007	377,883
2008	282,783
2009	282,783
2010	282,783
2011–2015	1,413,915
2016–2017	343,597
Total	$3,708,744

During both 2005 and 2004, the Authority recorded $378,782 of rental income (on a straight-line basis) under the agreement. In addition, the cost and carrying amount of the Authority’s property subject to this lease was $13.8 million and $13.3 million, respectively, at December 31, 2005, and $13.8 million and $13.5 million, respectively, at December 31, 2004.

8. BOND FUND PROGRAM

General Description—The Authority has established a Common Bond Fund Program (the “Program” or ”Bond Fund”) to provide long-term, fixed interest rate financing of $1 million to $9 million to credit worthy businesses and governmental organizations for owner-occupied industrial, commercial, and governmental projects. Port of Cleveland Bond Fund Development Revenue Bonds are issued in accordance with the Ohio Revised Code and a Trust Indenture dated November 1, 1997 between the Authority and a local financial institution. Through the issuance of long-term fixed interest rate financing, the program is designed to expand employment opportunities and increase the tax base in northeast Ohio, primarily in Cuyahoga County, for which the Authority has been designated an economic development financing agency of the State of Ohio. The bond issues are not general obligations of, and are not secured by, the full faith and credit of the Authority.

The Common Bond Fund Program includes a system of cash reserves used to collateralize the bonds issued under the Program. All borrowers are required to deposit an amount equal to ten percent of the proceeds of the bonds into a Primary Reserve Fund for each issuance, which secures the specific obligation to which it relates. If the Program Reserve and letter of credit discussed below are exhausted, the Primary Reserve Fund amounts can be used to secure repayment of other outstanding obligations issued under the Program. The primary reserve deposits, which totaled \$8.6 million and \$7.4 million at December 31, 2005 and 2004, respectively, consist of cash, government obligations, or acceptable letters of credit. A trustee holds these funds during the term the bonds are outstanding, with investment income earned on the Primary Reserve Fund amounts returned to the borrowers at their discretion. The balance in the Primary Reserve Fund established for each debt issuance is utilized to fund the final principal payment when the related debt issuance is completely repaid. In addition to the primary reserves, a Program Reserve is maintained to collateralize all of the obligations outstanding under the Program. The Program Reserve at December 31, 2005 was composed of a \$4 million cash reserve and a \$9 million irrevocable, nonrecourse letter of credit from a financial institution, which expires on March 1, 2014.

Cash and investment balances held in the Authority's Program Reserve and Primary Reserves are included in restricted cash and investments in the accompanying balance sheets.

Bond Obligations—A summary of the Authority's outstanding borrowings for projects funded under the Program at December 31, 2005 and 2004, are as follows:

2005 **Project**	**Financing Structure**	**Interest Rate**	**Final Maturity**	**Outstanding Balance at Dec. 31, 2005**	**Outstanding Balance at Dec. 31, 2004**	**Primary Reserve at Dec. 31, 2005**
ESSROC (Series 1997A) (dock improvements)	Operating Lease	5.75%-5.80%	May 15, 2027	$ 3,305,006	$ 3,369,345	$ 369,200
Jergens, Inc. (Series 1998A) (construction of manufacturing facility)	Loan	5.375 %	May 15, 2018	4,211,794	4,432,943	572,000
NOACA (Series 1998B) (acquisition and renovation of office facility)	Financing Lease	5.375 %	May 15, 2019	2,515,409	2,649,096	350,312
Port Capital Improvements (Series 1999A) (various and other improvements)	Loan	5.375 %	Nov. 15, 2019	4,091,700	4,289,965	520,385
Universal Heat Treating (Series 1999B) (acquisition and improvement of manufacturing facility)	Loan	6.50 %	Nov. 15, 2014	965,000	1,085,000	153,276
Regional Income Tax Agency (Series 2000B) (acquisition of personal property)	Financing Lease	6.00 %	Nov. 15, 2010	3,310,000	3,775,000	537,908
CEOGC (Series 2001A) (construction of Head Start facility)	Loan	6.25 %	May 15, 2016	3,600,000	3,835,000	451,205
Cleveland Bottle & Supply (Series 2001B) (acquisition and renovation of manufacturing and warehouse facilities)	Loan	6.50 %	Nov. 15, 2021	1,340,000	1,390,000	150,000
Community Assessment and Treatment Service Inc. (Series 2002A) (acquisition and renovation of facility)	Loan	5.60%-6.20%	May 15, 2022	1,910,000	1,970,000	217,070
International Steel Group (Series 2002B) (upgrading hot strip mill)	Loan	5.80 %	Feb. 22, 2005		3,775,000	
Cleveland Christian Home (Series 2002C) (acquisition and renovation of facility)	Loan	5.25%-5.95%	May 15, 2022	4,755,000	4,910,000	523,898
Heidtman Steel Products, Inc. (Series 2003A) (acquisition and construction of facility)	Financing Lease	6.10 %	May 15, 2013	3,695,000	4,070,000	425,000
Luigino's, Inc. (Series 2004A) (acquisition and construction of frozen foods facility)	Loan	5.86 %	May 15, 2019	4,800,000	5,000,000	500,000
City of Cleveland, Ohio (Series 2004B) (public improvements)	Tax Increment Financing	4.50 %	May 15, 2030	2,640,000	2,965,000	298,429
Tru-Fab Technology, Inc. (Series 2004C) (acquisition of manufacturing facility)	Loan	6.77 %	Nov. 15, 2023	1,020,000	1,050,000	109,504
City of Garfield Heights, Ohio (Series 2004 D) (construction of infrastructure for retail development)	Tax Increment Financing	5.25 %	May 15, 2023	8,850,000	8,850,000	885,000
David N. Myers University (Series 2004E) (acquisition and renovation of existing facility)	Loan	4.65%-5.60%	May 15, 2023	5,725,000	5,725,000	589,137
Goodyear Tire & Rubber (Series 2005A) (acquisition, construction and installation of equipment)	Cooperative Agreement	5.75 %	May 15, 2025	4,125,000		418,309
Fairmount Montessori Association (Series 2005B) (construction and improvement of existing facility)	Loan	5.125 %	May 15, 2014	3,375,000		342,264
Avery Dennison Corporation (Series 2005C) (construction of commercial office and R&D facility)	Operating Lease	5.75 %	Nov. 15, 2015	6,000,000		600,354
Columbia National Group (Series 2005D) (construction of an industrial production facility)	Financing Lease	5.00 %	May 15, 2020	6,020,000		602,000
Total				$76,253,909	$63,141,349	$8,615,251

The bonds outstanding under the Program at December 31, 2005 are payable are follows:

Year	Principal	Interest	Total
2006	$ 2,995,000	$ 4,287,255	$ 7,282,255
2007	3,480,000	4,042,051	7,522,051
2008	3,990,000	3,831,849	7,821,849
2009	4,470,000	3,598,300	8,068,300
2010	5,075,000	3,344,386	8,419,386
2011-2015	27,570,000	12,869,512	40,439,512
2016-2020	17,100,000	5,540,289	22,640,289
2021-2025	10,375,000	1,683,927	12,058,927
2026-2030	1,435,000	124,943	1,559,943
Total payments	76,490,000	$ 39,322,512	$ 115,812,512
Unamortized original issue discount	(236,091)		
Recorded balance at December 31, 2005	$ 76,253,909		

Under the Program, debt service requirements on each bond issue are secured by a pledge of amounts to be received pursuant to loan, lease, or other agreements executed in connection with the projects. The timing and amount of payments due from the borrowers and paid directly to the Bond Fund trustee under the various agreements approximate the debt service requirements of the bonds, plus a small administrative charge. The future minimum payments to be received under lease agreements, which secure the repayment of certain debt obligations issued under the Program, and the Authority's net investment in financing leases at December 31, 2005, are as follows:

	Recorded on Balance Sheet		
Year	Financing Leases	Operating Leases	Total
2006	$ 2,131,948	$ 692,635	$ 2,824,583
2007	2,244,792	721,565	2,966,357
2008	2,245,250	626,808	2,872,058
2009	2,242,986	630,933	2,873,919
2010	2,174,923	626,321	3,301,245
2011-2015	6,064,234	8,442,507	14,506,741
2016-2020	3,445,860	1,319,369	4,265,228
2021-2025	-	1,296,770	1,296,770
2026-2027	-	746,367	746,367
Total amounts to be received	20,549,993	$ 15,103,275	$ 35,653,268
Unearned interest income	(5,851,727)		
Future commitments for investment in financing leases	(770,753)		
Net investment in lease	$ 13,927,513		

The sole completed project accounted for as an operating lease is secured by property which had a cost and carrying amount of $3.5 million and $2.7 million, respectively, at December 31, 2005 and $3.5 million and $2.8 million, respectively, at December 31, 2004. Construction was in process at

December 31, 2005 on the other project accounted for as an operating lease. This project had a construction in progress balance of $4.8 million at December 31, 2005.

At December 31, 2005, a $5.1 million loan receivable securing the repayment of related bonds issued under the Bond Fund Program was due from an organization that has negative working capital and has recently been experiencing significant operating losses. Despite the borrower's financial difficulties, debt service under the loan continues to be paid in a timely manner. In addition, the loan is secured by a first mortgage on the property that was recently improved with the proceeds of the Bond Fund financing. Based on discussions with the borrower and review of an appraisal of the value of the property serving as collateral, the Authority believes that the entire balance of the loan is collectible and a reserve for uncollectible amounts has not been established. However, it is reasonably possible that an anticipated improvement in the borrower's operations may not occur and the value of the collateral may not be sufficient to cover any unpaid loan amounts, in which case a portion of the loan may not be collected. Although a charge to the Authority's operating results would occur in the event all or a portion of the loan is deemed uncollectible, the Authority believes that the Bond Fund Program's system of cash reserves would be sufficient to insure the timely repayment of the related bonds issued under the Program.

9. TAX ANTICIPATION NOTES, SERIES 2002

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

The 2002 TANs are tax-exempt, have a final maturity date of November 15, 2006 and bear interest at the rate of 1.75%-2.50% per annum. The 2002 TANs are special obligations of the Authority and are to be paid only from the proceeds of the Authority's .13 mill renewal property tax levy (see Note 5). The TANs are not general obligations of the Authority. The 2002 TANs are payable as follows:

Year	Principal	Interest	Total
2006 payments	$2,040,000	$ 51,000	$2,091,000
Unamortized original issue premium	713		
Recorded balance at December 31, 2005	$2,040,713		

10. STATE OF OHIO 166 LOAN

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

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

11. SUMMARY OF ACTIVITY IN LONG-TERM OBLIGATIONS

Changes in the Authority's long-term obligations for the years ended December 31, 2005 and 2004 are as follows:

	Balance January 1, 2005	Increase	Decrease	Balance December 31, 2005	Due Within One Year
Cleveland Bulk Terminals Project	$ 5,385,764	$ 83,105	$ (60,000)	$ 5,408,869	$ 60,000
Bond Fund Activities	63,141,349	19,547,560	(6,435,000)	76,253,909	2,995,000
Tax Anticipation Notes	4,037,122		(1,996,409)	2,040,713	2,040,713
State of Ohio 166 Loan	536,837		(43,675)	493,162	45,456
Total	$ 73,101,072	$ 19,630,665	$ (8,535,084)	$ 84,196,653	$ 5,141,169

Changes in the Authority's long-term obligations for the year ended December 31, 2004 are as follows:

	Balance January 1, 2004 *	Increase	Decrease	Balance December 31, 2004
Cleveland Bulk Terminals Project	$ 5,353,699	$ 92,065	$ (60,000)	$ 5,385,764
Bond Fund Activities	44,427,662	23,628,687	(4,915,000)	63,141,349
Tax Anticipation Notes	6,004,218		(1,967,096)	4,037,122
State of Ohio 166 Loan	578,801		(41,964)	536,837
Total	$ 56,364,380	$ 23,720,752	$ (6,984,060)	$ 73,101,072

* - As restated for the accounting change discussed in Note 1

12. OTHER LEASES

Authority as Lessee—The Authority leases various docks from the City of Cleveland (the "City"). On August 15, 2004, the Authority returned Dock 32 to the City and, in October 2004, the lease agreement was amended to reduce the Authority's annual rental payments from $500,000 to $400,000 through the expiration of the lease in December 2028. Under the amended lease, the City has the right to remove Dock 30, and a portion of Dock 28 from the lease upon five years written notice. If either of these docks were returned to the City, the annual rental payments required under the lease would be reduced based on the number of square feet eliminated from the lease. The maximum reduction in the annual lease payments would aggregate $150,000 if both of these docks were returned to the City. Rental expense in 2005 and 2004 under the operating lease with the City was $399,999 and $461,289, respectively.

The Authority has leased office space at One Cleveland Center since January 2000. Pursuant to a lease agreement with MRI Asset Management, L.L.C., the Authority leased 8,798 square feet of office space at a base rental expense of $175,287 for 2004. In early 2005, the Authority amended the lease agreement to expand into an adjacent 1,929 square feet of office space and to extend the lease to January 14, 2009. The annual future base rentals (including the 2005 amendment) are $ $193,000 in 2006, $198,000 in 2007 and $209,000 in 2008.

Authority as Lessor—The Authority subleases a portion of the property leased from the City of Cleveland. Total rental income from these operating leases, which expire in 2006, amounted to $388,791 and $360,058 for the years ended December 31, 2005 and 2004, respectively. The future rentals the Authority is scheduled to receive under the leases total $95,325, all of which are due in 2006.

The Authority is also the lessor of certain real property under operating leases expiring in 2006. Total rental income from these leases amounted to $454,565 and $274,600 for the years ended December 31, 2005 and 2004, respectively. The future rentals the Authority is scheduled to receive under the leases total $129,510, all of which are due in 2006.

13. RISK MANAGEMENT

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

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

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

14. CONDUIT DEBT

As stated in Note 1, the Authority has issued several debt obligations over the past few years that are not part of the Bond Fund Program (see Note 8), are secured by the property financed, and are payable solely from the payments received by the trustee from the borrowers or other sources specified in the related agreements. These obligations are considered "conduit debt obligations" under Interpretation No. 2 of the Governmental Accounting Standards Board, *Disclosure of Conduit Debt Obligations.*

Because the Authority has no obligation to repay the debt beyond the specific third party revenue sources pledged under the debt agreements, the obligations are not recorded on the Authority's balance sheets. Since 1993, the Authority has issued conduit debt obligations for 24 transactions. The aggregate remaining principal amount payable at December 31, 2005 for the Authority's outstanding conduit debt obligations could not be determined; however, their original issue amounts totaled approximately $758 million.

15. NEW MARKET TAX CREDIT PROGRAM

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

NEODF may utilize the credits provided it complies with terms and conditions of the Cooperative Agreement and the New Market Tax Credit Program. The Port Authority has no obligation for compliance under the New Market Tax Credit Program, but receives certain fees and other monies from investments made by NEODF and related organizations under the program. The Port Authority recognized fees under the program of $310,000 during the year ended December 31, 2005 from tax credit investments made by NEODF and related organizations.

16. FLATS EAST BANK PROJECT

The Authority, in collaboration with the City of Cleveland, Cuyahoga County, the State of Ohio, the Northeast Ohio Regional Sewer District, the Cleveland Municipal School District, Greater Cleveland Partnership and others has been working for the past several years with Scott Wolstein, through Flats East Development LLC ("Developer"), on a major redevelopment project in the City of Cleveland known as the Flats East Bank Project. This is an approximately $230,000,000 redevelopment of the East Bank of the Flats in Cleveland, Ohio which will include a residential and commercial development contemplated to include for-sale and rental residential units, supporting retail and commercial development, parking facilities and other public improvements including streets, sidewalks, street lights, public utilities, a promenade along the Cuyahoga River, public park, marina and other public spaces (the "Project"). The tentative completion date for the Project is 2009.

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

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

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

17. SEGMENT INFORMATION

The following financial information represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. These activities include the following: (1) "Port Activities", which refers herein to the Authority's core maritime operations including the cost of the administration of the Port's Operating Groups (Maritime, Development Finance, Strategic Development, and Administration) and the fees generated by such groups (2) the Authority's "Bond Fund", through which long-term fixed interest rate financing is used to expand employment opportunities and increase the tax base in northeast Ohio.

	Port Activities	Bond Fund	Total
CONDENSED BALANCE SHEET INFORMATION AS OF DECEMBER 31, 2005			
Assets			
Current assets	$ 13,120,848	$ -	$ 13,120,848
Capital assets	41,831,226	7,514,782	49,346,008
Restricted and other assets	2,912,622	72,329,693	75,242,315
TOTAL ASSETS	$ 57,864,696	$ 79,844,475	$ 137,709,171
Liabilities and Net Assets			
Liabilities:			
Current liabilities	$ 6,798,749	$ -	$ 6,798,749
Current liabilities payable from restricted assets	187,488	5,364,717	5,552,205
Other liabilities	10,820,583	70,513,878	81,334,461
Total liabilities	17,806,820	75,878,595	93,685,415
Net Assets:			
Invested in capital assets, net of related debt	30,082,067	61,458	30,143,525
Restricted for debt service	1,292,541	3,904,422	5,196,963
Unrestricted	8,683,268		8,683,268
Total net assets	40,057,876	3,965,880	44,023,756
TOTAL LIABILITIES AND NET ASSETS	$ 57,864,696	$ 79,844,475	$ 137,709,171
CONDENSED REVENUE AND EXPENSE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2005			
Operating revenues	$ 5,081,502	$ 263,509	$ 5,345,011
Operating expenses	6,635,043	105,372	6,740,415
Operating income (loss)	(1,553,541)	158,137	(1,395,404)
Nonoperating revenues (expenses)—net	3,072,392	(47,836)	3,024,556
Transfers between activities	268,681	(268,681)	
Increase (decrease) in net assets	$ 1,787,532	$ (158,380)	$ 1,629,152
CONDENSED CASH FLOWS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2005			
Net cash flows provided by operating activities	$ 85,155	$ 266,486	$ 351,641
Net cash flows provided (used) by noncapital financing activities	3,431,251	(50,985)	3,380,266
Net cash flows used by capital and related financing activities	(2,561,326)	(323,105)	(2,884,431)
Net cash flows used by investing activities	(1,921,357)	(533,053)	(2,454,410)
Net decrease in cash and cash equivalents	(966,277)	(640,657)	(1,606,934)
Cash and cash equivalents—beginning of year	3,722,454	8,224,888	11,947,342
Cash and cash equivalents—end of year	$ 2,756,177	$ 7,584,231	$ 10,340,408

	Port Activities	Bond Fund	Total
CONDENSED BALANCE SHEET INFORMATION AS OF DECEMBER 31, 2004			
Assets			
Current assets	$ 12,667,461	$ -	$ 12,667,461
Capital assets	42,890,847	2,836,506	45,727,353
Restricted and other assets	2,326,022	62,149,901	64,475,923
TOTAL ASSETS	$ 57,884,330	$ 64,986,407	$ 122,870,737
Liabilities and Net Assets			
Liabilities:			
Current liabilities	$ 6,824,363	$ -	$ 6,824,363
Current liabilities payable from restricted assets	85,426	4,271,879	4,357,305
Other liabilities	12,704,197	56,590,268	69,294,465
Total liabilities	19,613,986	60,862,147	80,476,133
Net Assets:			
Invested in capital assets, net of related debt	29,128,209	(476,242)	28,651,967
Restricted for debt service	1,000,363	4,600,502	5,600,865
Unrestricted	8,141,772		8,141,772
Total net assets	38,270,344	4,124,260	42,394,604
TOTAL LIABILITIES AND NET ASSETS	$ 57,884,330	$ 64,986,407	$ 122,870,737

CONDENSED REVENUE AND EXPENSE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2004

	Port Activities	Bond Fund	Total
Operating revenues	$ 5,212,963	$ 263,509	$ 5,476,472
Operating expenses	5,817,039	105,372	5,922,411
Operating income (loss)	(604,076)	158,137	(445,939)
Nonoperating revenues (expenses)—net	2,471,612	(47,985)	2,423,627
Capital grant	394,162		394,162
Transfers between activities	264,922	(264,922)	
Increase (decrease) in net assets	$ 2,526,620	$ (154,770)	$ 2,371,850

CONDENSED CASH FLOWS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2004

	Port Activities	Bond Fund	Total
Net cash flows provided by operating activities	$ 654,272	$ 266,429	$ 920,701
Net cash flows provided (used) by noncapital financing activities	3,312,783	(42,469)	3,270,314
Net cash flows provided (used) by capital and related financing activities	(4,200,615)	4,536,141	335,526
Net cash flows used by investing activities	(565,112)	(2,623,525)	(3,188,637)
Net increase (decrease) in cash and cash equivalents	(798,672)	2,136,576	1,337,904
Cash and cash equivalents—beginning of year	4,521,126	6,088,312	10,609,438
Cash and cash equivalents—end of year	$ 3,722,454	$ 8,224,888	$ 11,947,342

* * * * * *

SUPPLEMENTAL SCHEDULES

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

BALANCE SHEET INFORMATION BY ACTIVITY
AS OF DECEMBER 31, 2005

ASSETS	Port Activities (1)	Bond Fund (2)	Total
CURRENT ASSETS:			
Cash and investments	$ 9,193,854	$ -	$ 9,193,854
Accounts receivable	369,593		369,593
Property taxes receivable	3,300,000		3,300,000
Other receivables	60,925		60,925
Prepaid expenses	196,476		196,476
Total current assets	13,120,848		13,120,848
CAPITAL ASSETS:			
Land and land improvements	19,676,430	146,587	19,823,017
Buildings, infrastructures, and leasehold improvements	30,074,802	3,342,778	33,417,580
Equipment	757,883		757,883
Construction in progress	7,600	4,783,648	4,791,248
Total	50,516,715	8,273,013	58,789,728
Less accumulated depreciation	8,685,489	758,231	9,443,720
Net book value of capital assets	41,831,226	7,514,782	49,346,008
RESTRICTED AND OTHER ASSETS:			
Restricted cash and investments	2,020,699	17,027,035	19,047,734
Financing lease receivables		13,927,513	13,927,513
Operating lease receivable	551,983		551,983
Notes and loans receivable		39,056,068	39,056,068
Debt issuance costs	285,284	2,237,445	2,522,729
Other	54,656	81,632	136,288
Total restricted and other assets	2,912,622	72,329,693	75,242,315
TOTAL	$ 57,864,696	$ 79,844,475	$ 137,709,171

(1) Includes Port, North Coast Harbor, and the Cleveland Bulk Terminal activities, as well as the Port Capital Improvements Series 1999A Bonds

(2) Includes Bond Fund Projects, excluding the Series 1999A Bonds

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

BALANCE SHEET INFORMATION BY ACTIVITY
AS OF DECEMBER 31, 2005

LIABILITIES AND NET ASSETS	Port Activities (1)	Bond Fund (2)	Total
CURRENT LIABILITIES:			
Accounts payable	$ 823,253	$	$ 823,253
Deferred income	3,432,771		3,432,771
Accrued wages and benefits	181,556		181,556
Current portion of bonds to be repaid by the Authority:			
Cleveland Bulk Terminal Project	60,000		60,000
Bond Fund activities—Port Capital Improvements	215,000		215,000
Tax Anticipation Notes	2,040,713		2,040,713
State of Ohio 166 Loan	45,456		45,456
Total current liabilities	6,798,749		6,798,749
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:			
Accounts payable	126,561	2,015,049	2,141,610
Accrued interest payable	60,927	569,668	630,595
Current portion of revenue bonds and notes—Bond Fund activities		2,780,000	2,780,000
Total current liabilities payable from restricted assets	187,488	5,364,717	5,552,205
OTHER LIABILITIES—Including amounts relating to restricted assets:			
Deferred income	978,574	121,621	1,100,195
Revenue bonds and notes, net of current portion:			
Cleveland Bulk Terminal Project	5,348,869		5,348,869
Bond Fund activities	3,876,699	69,382,210	73,258,909
Tax Anticipation Notes			
State of Ohio 166 Loan	447,706		447,706
Debt repayment security deposits payable		1,010,047	1,010,047
Other	168,735		168,735
Total other liabilities	10,820,583	70,513,878	81,334,461
Total liabilities	17,806,820	75,878,595	93,685,415
NET ASSETS:			
Invested in capital assets, net of related debt	30,082,067	61,458	30,143,525
Restricted for debt service	1,292,541	3,904,422	5,196,963
Unrestricted	8,683,268		8,683,268
Total net assets	40,057,876	3,965,880	44,023,756
TOTAL	$ 57,864,696	$ 79,844,475	$ 137,709,171

(1) Includes Port, North Coast Harbor, and the Cleveland Bulk Terminal activities, as well as the Port Capital Improvements Series 1999A Bonds

(2) Includes Bond Fund Projects, excluding the Series 1999A Bonds

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

BALANCE SHEET INFORMATION BY ACTIVITY
AS OF DECEMBER 31, 2004

ASSETS	Port Activities (1)	Bond Fund (2)	Total
CURRENT ASSETS:			
Cash and investments	$ 8,499,857	$ -	$ 8,499,857
Accounts receivable	674,460		674,460
Property taxes receivable	3,300,000		3,300,000
Other receivables	27,792		27,792
Prepaid expenses	165,352		165,352
Total current assets	12,667,461		12,667,461
CAPITAL ASSETS:			
Land and land improvements	19,676,430	146,587	19,823,017
Buildings, infrastructures, and leasehold improvements	30,067,874	3,342,778	33,410,652
Equipment	251,323		251,323
Construction in progress	492,702		492,702
Total	50,488,329	3,489,365	53,977,694
Less accumulated depreciation	7,597,482	652,859	8,250,341
Net book value of capital assets	42,890,847	2,836,506	45,727,353
RESTRICTED AND OTHER ASSETS:			
Restricted cash and investments	1,298,388	16,920,779	18,219,167
Financing lease receivables		9,728,259	9,728,259
Operating lease receivable	591,402		591,402
Notes and loans receivable		33,464,865	33,464,865
Debt issuance costs	341,032	1,977,658	2,318,690
Other	95,200	58,340	153,540
Total restricted and other assets	2,326,022	62,149,901	64,475,923
TOTAL	$ 57,884,330	$ 64,986,407	$ 122,870,737

(1) Includes Port, North Coast Harbor, and the Cleveland Bulk Terminal activities, as well as the Port Capital Improvements Series 1999A Bonds

(2) Includes Bond Fund Projects, excluding the Series 1999A Bonds

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

BALANCE SHEET INFORMATION BY ACTIVITY
AS OF DECEMBER 31, 2004

LIABILITIES AND NET ASSETS	Port Activities (1)	Bond Fund (2)	Total
CURRENT LIABILITIES:			
Accounts payable	$ 913,795	$ -	$ 913,795
Deferred income	3,455,205		3,455,205
Accrued wages and benefits	156,689		156,689
Current portion of bonds to be repaid by the Authority:			
Cleveland Bulk Terminal Project	60,000		60,000
Bond Fund activities—Port Capital Improvements	200,000		200,000
Tax Anticipation Notes	1,995,000		1,995,000
State of Ohio 166 Loan	43,674		43,674
Total current liabilities	6,824,363		6,824,363
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:			
Accounts payable	19,020	491,164	510,184
Accrued interest payable	66,406	380,715	447,121
Current portion of revenue bonds and notes—Bond Fund activities		3,400,000	3,400,000
Total current liabilities payable from restricted assets	85,426	4,271,879	4,357,305
OTHER LIABILITIES—Including amounts relating to restricted assets:			
Deferred income	738,183	203,046	941,229
Revenue bonds and notes, net of current portion:			
Cleveland Bulk Terminal Project	5,325,764		5,325,764
Bond Fund activities	4,089,965	55,451,384	59,541,349
Tax Anticipation Notes	2,042,122		2,042,122
State of Ohio 166 Loan	493,163		493,163
Debt repayment security deposits payable		935,838	935,838
Other	15,000		15,000
Total other liabilities	12,704,197	56,590,268	69,294,465
Total liabilities	19,613,986	60,862,147	80,476,133
NET ASSETS:			
Invested in capital assets, net of related debt	29,128,209	(476,242)	28,651,967
Restricted for debt service	1,000,363	4,600,502	5,600,865
Unrestricted	8,141,772		8,141,772
Total net assets	38,270,344	4,124,260	42,394,604
TOTAL	$ 57,884,330	$ 64,986,407	$ 122,870,737

(1) Includes Port, North Coast Harbor, and the Cleveland Bulk Terminal activities, as well as the Port Capital Improvements Series 1999A Bonds

(2) Includes Bond Fund Projects, excluding the Series 1999A Bonds

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

REVENUE AND EXPENSE INFORMATION BY ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2005

	Port Activities (1)	Bond Fund (2)	Total
OPERATING REVENUES:			
Wharfage, dockage and storage	$ 767,502	$ -	$ 767,502
Property lease and rentals	1,652,979	263,509	1,916,488
Other fee and rental income	2,162,082		2,162,082
Third party contributions and other	498,939		498,939
Total operating revenues	5,081,502	263,509	5,345,011
OPERATING EXPENSES:			
Salaries and benefits	2,088,045		2,088,045
Professional services	1,321,175		1,321,175
Facilities lease and maintenance	1,084,914		1,084,914
Marketing and communications	457,727		457,727
Depreciation expense	1,089,627	105,372	1,194,999
Office expense	290,760		290,760
Other expense	302,795		302,795
Total operating expenses	6,635,043	105,372	6,740,415
OPERATING INCOME (LOSS)	(1,553,541)	158,137	(1,395,404)
NONOPERATING REVENUES (EXPENSES):			
Property tax receipts	3,264,054		3,264,054
Income from investments, financing leases and notes receivable	494,248	3,704,177	4,198,425
Interest expense	(848,960)	(3,682,914)	(4,531,874)
Other—net	163,050	(69,099)	93,951
Total nonoperating revenues (expenses)—net	3,072,392	(47,836)	3,024,556
INCREASE IN NET ASSETS BEFORE TRANSFERS	1,518,851	110,301	1,629,152
TRANSFERS BETWEEN ACTIVITIES	268,681	(268,681)	
INCREASE/(DECREASE) IN NET ASSETS	$ 1,787,532	$ (158,380)	$ 1,629,152

(1) Includes Port, North Coast Harbor, and the Cleveland Bulk Terminal activities, as well as the Port Capital Improvements Series 1999A Bonds

(2) Includes Bond Fund Projects, excluding the Series 1999A Bonds

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

REVENUE AND EXPENSE INFORMATION BY ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2004

	Port Activities (1)	Bond Fund (2)	Total
OPERATING REVENUES:			
Wharfage, dockage and storage	$ 1,073,565	$ -	$ 1,073,565
Property lease and rentals	1,416,947	263,509	1,680,456
Other fee and rental income	2,009,293		2,009,293
Third party contributions and other	713,158		713,158
Total operating revenues	5,212,963	263,509	5,476,472
OPERATING EXPENSES:			
Salaries and benefits	1,769,826		1,769,826
Professional services	1,166,025		1,166,025
Facilities lease and maintenance	976,036		976,036
Marketing and communications	401,802		401,802
Depreciation expense	952,328	105,372	1,057,700
Office expense	271,510		271,510
Other expense	279,512		279,512
Total operating expenses	5,817,039	105,372	5,922,411
OPERATING INCOME (LOSS)	(604,076)	158,137	(445,939)
NONOPERATING REVENUES (EXPENSES):			
Property tax receipts	3,284,624		3,284,624
Income from investments, financing leases and notes receivable	342,577	3,062,224	3,404,801
Interest expense	(924,159)	(3,067,739)	(3,991,898)
Write-off of property associated with early lease termination	(248,156)		(248,156)
Other—net	16,726	(42,470)	(25,744)
Total nonoperating revenues (expenses)—net	2,471,612	(47,985)	2,423,627
INCREASE IN NET ASSETS BEFORE CAPITAL GRANT ACTIVITY AND TRANSFERS	1,867,536	110,152	1,977,688
CAPITAL GRANT	394,162		394,162
INCREASE IN NET ASSETS BEFORE TRANSFERS	2,261,698	110,152	2,371,850
TRANSFERS BETWEEN ACTIVITIES	264,922	(264,922)	
INCREASE/(DECREASE) IN NET ASSETS	$ 2,526,620	$ (154,770)	$ 2,371,850

(1) Includes Port, North Coast Harbor, and the Cleveland Bulk Terminal activities, as well as the Port Capital Improvements Series 1999A Bonds

(2) Includes Bond Fund Projects, excluding the Series 1999A Bonds

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

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

We have audited the financial statements of the Cleveland-Cuyahoga County Port Authority (the "Authority") as of and for the year ended December 31, 2005, and have issued our report thereon dated June 26, 2006, which contained an explanatory paragraph describing an accounting change made by the Authority. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Deloitte & Touche LLP

June 26, 2006

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

STATUS OF PRIOR YEAR COMMENT ON INTERNAL CONTROL AND LEGAL COMPLIANCE

Finding No. 2004-1

Federal Award Program—Port Security Grant Program—Award No. DTSA20-03-G-01064 (CFDA No. 97-056)

Condition—There were no control activities in place at the Authority to ensure that only American-made equipment and products were purchased with the funds provided under this grant.

Questioned Costs—$394,162

Recommendation—The Authority should implement procurement procedures to insure compliance with American-made provisions of grant agreements. Such procedures should include the necessary requirements in requests for proposals and in vendor agreements.

Authority's Corrective Action Plan—The video surveillance contract was $496,000. A large portion of the contract was labor, and the equipment was approximately 75% American-made (wire and Pelco cameras). The contract has been completed and the Authority therefore does not believe corrective action is required. The Authority believes that it complied with the spirit of the statement that it is "the intent of Congress that entities receiving and expending such funds purchase only American-made equipment and products." Any questions, concerning this response should be directed to Lynda Sudderberg at (216) 241-8004.

Current Status—As mentioned above, the Authority believes that it has complied with the spirit of the requirements. No additional action has been taken by the Authority regarding this matter.

Auditor of State
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CLEVELAND CUYAHOGA COUNTY PORT AUTHORITY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 17, 2006