Cleveland-Cuyahoga County Port Authority

Single Audit Report
for the Year Ended
December 31, 2004
and Independent Auditors' Reports

Auditor of State
Betty Montgomery

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

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 27, 2005

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CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cleveland-Cuyahoga County Port Authority

We have audited the financial statements of the Cleveland-Cuyahoga County Port Authority (the "Authority") as of December 31, 2004, and for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides 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, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Management's Discussion and Analysis on pages 3-11 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 audit was 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 year ended December 31, 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. The accompanying supplemental schedule of expenditures of federal awards for the year ended December 31, 2004 is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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 audit 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 a report dated May 27, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

May 27, 2005

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 year ended December 31, 2004. Please read this information in conjunction with the Authority's basic financial statements and footnotes that begin on page 12.

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 35.

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 and 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 Port 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 balance sheet.

It is important to note the following regarding the Port'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 and 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 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

Provided below is condensed balance sheet information for the Authority as of December 31, 2004 and 2003:

	December 31, 2003, As Previously Reported	Effect of Accounting Change	December 31, 2003, As Restated	December 31, 2004
ASSETS:				
Current assets	$ 11,772,011	$	$ 11,772,011	$ 12,667,461
Capital assets	145,485,367	(99,813,774)	45,671,593	45,727,353
Restricted and other assets	96,846,156	(50,759,689)	46,086,467	64,475,923
Total assets	$ 254,103,534	$ (150,573,463)	$ 103,530,071	$ 122,870,737

	December 31, 2003, As Previously Reported	Effect of Accounting Change	December 31, 2003, As Restated	December 31, 2004
LIABILITIES AND NET ASSETS:				
Liabilities:				
Current liabilities	$ 7,041,520	$ (473,682)	$ 6,567,838	$ 6,824,363
Current liabilities payable from restricted assets	21,583,332	(17,459,672)	4,123,660	4,357,305
Other liabilities—including amounts relating to restricted assets	185,712,025	(132,896,206)	52,815,819	69,294,465
Total liabilities	214,336,877	(150,829,560)	63,507,317	80,476,133
NET ASSETS:				
Invested in capital assets—net of related debt	20,018,997	6,757,226	26,776,223	28,651,967
Restricted for debt service	12,760,204	(6,974,810)	5,785,394	5,600,865
Unrestricted	6,987,456	473,681	7,461,137	8,141,772
Total net assets	39,766,657	256,097	40,022,754	42,394,604
Total liabilities and net assets	$254,103,534	$ (150,573,463)	$ 103,530,071	$ 122,870,737

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

Current Assets: Current assets increased slightly in 2004 as a result of cash and investments resulting from the Authority's operating activities.

Capital Assets: The Authority's investment in capital assets as of December 31, 2004 amounted to $45.7 million (net of accumulated depreciation). Capital assets before accumulated depreciation increased $.9 million (1.8%). Accumulated depreciation increased nearly $.9 million, offsetting the increase in the net capital asset amount before depreciation.

A summary of the activity in the Authority's capital assets during the year ended December 31, 2004 follows:

	Balance at Beginning of Year, As Previously Reported	Effect of Accounting Change	Balance at Beginning of Year, As Restated	Additions	Reductions	Balance at End of Year
Land and land improvements	$ 28,322,094	$ (8,499,077)	$ 19,823,017	$ -	$ -	$ 19,823,017
Buildings, infrastructures and leasehold improvements	118,457,541	(91,382,223)	27,075,318	6,763,637	(428,303)	33,410,652
Equipment	8,726,993	(8,505,681)	221,312	34,736	(4,725)	251,323
Construction in progress	5,929,460		5,929,460	519,529	(5,956,287)	492,702
	161,436,088	(108,386,981)	53,049,107	7,317,902	(6,389,315)	53,977,694
Less accumulated depreciation	(15,950,721)	(8,573,207)	(7,377,514)	(1,057,700)	184,873	(8,250,341)
Capital assets—net	$ 145,485,367	$ (99,813,774)	$ 45,671,593	$ 6,260,202	$ (6,204,442)	$ 45,727,353

The major event during the current fiscal year affecting the Authority's capital assets was as follows:

- $6.6 million of construction costs related to the ore loader at the Authority's Cleveland Bulk Terminal were added to buildings, infrastructures and leasehold improvements in 2004. 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 $18.4 million increase in restricted and other assets is related to additional transactions in the Port's Bond Fund program. The Authority financed five new transactions in 2004, totaling $23.6 million in additional restricted assets. The $23.6 million in additional assets was offset by the use of restricted assets to make scheduled repayments of debt obligations by existing borrowers, and the $1.9 million early redemption of the Playhouse Square Foundation project (Series 2000A). Some additional details are included below:

- Restricted cash and investments increased by $4.2 million as the Myers University and Garfield Heights transactions had a significant amount of unspent proceeds at December 31, 2004 because these projects had not been completed.

- 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 increased approximately $257,000. 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 bonds to be repaid by the Authority.

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 $233,000 primarily resulted from:

- An increase of $76,000 in accrued interest payable as the Authority conducted 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 $16.5 million from the prior year. The main reason for the increase was the additional $23.6 million of bonds issued in 2004 in 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 being classified as current as of December 31, 2004.

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

	Balance at Beginning of Year, As Previously Reported	Effect of Accounting Change	Balance at Beginning of Year, As Restated	Additions	Reductions	Balance at End of Year
Rock & Roll Hall of Fame and Museum	$ 24,480,000	$ (24,480,000)	$ -	$ -	$ -	$ -
Applied Industrial Technologies	31,155,038	(31,155,038)				
Cleveland Bulk Terminal	5,353,699		5,353,699	92,065	(60,000)	5,385,764
Bond Fund Activities	44,427,662		44,427,662	23,628,687	(4,915,000)	63,141,349
Tax Anticipation Notes	6,004,218		6,004,218		(1,967,096)	4,037,122
MetroHealth	10,973,006	(10,973,006)				
MTD Consumer Group	13,511,496	(13,511,496)				
Parma Community General Hospital	22,458,226	(22,458,226)				
University Square	40,406,518	(40,406,518)				
TRW Automotive	634,350	(634,350)				
State of Ohio 166 Loan	578,801		578,801		(41,964)	536,837
Total	$ 199,983,014	$ (143,618,634)	$ 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 Port'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 $42.4 million at the close of the most recent fiscal year.

The largest portion of the Authority's net assets (68% at December 31, 2004) 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 at December 31, 2004, net capital assets related to Port Activities exceeded $29 million, while the related debt obligations exceeded the net book value of capital assets by approximately $476,000 for the Bond Fund financing projects. This dichotomy exemplifies 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 sole Bond Fund financing project that involves an operating lease) are often depreciated at a faster rate than principal payments are required under the related debt, which generates the negative 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, roughly $1.0 million of the December 31, 2004 amount 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 $2.4 million in 2004 and by $1.8 million in 2003 (after adjustment for the effect of the accounting change). Key elements of these changes are summarized below:

	Year Ended December 31, 2003			
	As Previously Reported	Effect of Accounting Change	As Restated	Year Ended December 31, 2004
OPERATING REVENUES:				
Wharfage, dockage and storage	$ 704,947	$ -	$ 704,947	$ 1,073,565
Property lease and rentals	7,239,954	(5,482,956)	1,756,998	1,680,456
Other fee and rental income	1,301,801		1,301,801	2,009,293
Third party contributions and other	608,084		608,084	713,158
Total operating revenues	9,854,786	(5,482,956)	4,371,830	5,476,472
OPERATING EXPENSES	8,822,249	(3,279,645)	5,542,604	5,922,411
OPERATING INCOME (LOSS)	1,032,537	(2,203,311)	(1,170,774)	(445,939)
NONOPERATING REVENUES (EXPENSES):				
Property tax receipts	3,261,779		3,261,779	3,284,624
Tax increment revenues	1,024,612	(1,024,612)		
Income from investments—financing leases and notes receivable	3,425,650	(282,252)	3,143,398	3,404,801
Interest expense	(8,893,244)	5,474,687	(3,418,557)	(3,991,898)
Write-off of property associated with early lease termination				(248,156)
Other—net	7,114	(26,225)	(19,111)	(25,744)
Total nonoperating revenues (expenses)—net	(1,174,089)	4,141,598	2,967,509	2,423,627
INCREASE (DECREASE) IN NET ASSETS BEFORE CAPITAL GRANT ACTIVITY	(141,552)	1,938,287	1,796,735	1,977,688
CAPITAL GRANT				394,162
INCREASE (DECREASE) IN NET ASSETS	$ (141,552)	$ 1,938,287	$ 1,796,735	$ 2,371,850

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 increased 25% from $4.4 million in 2003 to $5.5 million in 2004. The entire increase is related to Port Activities, as operating revenues for Bond Fund transactions remained consistent over the prior year. A discussion of the components of operating revenues and the corresponding changes are as follows.

Wharfage, Dockage, and Storage: These revenues are generated from Port cargo movements and they collectively increased 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 the new ore loader.

Property Lease and Rentals: The $77,000 decrease in property lease and rentals is almost entirely related to the property rentals category, which decreased to $667,000 from $744,000 in 2003. This is due to less warehouse space being leased than in the prior year. The other sources of revenue for this category, ESSROC's land lease ($114,600); the Great Lakes Towing lease of the Old River Property ($93,400); Kenmore Construction's lease of a portion of Dock 20 ($163,500); and Oglebay Norton's lease of Cleveland Bulk Terminal ($378,800) remained relatively consistent with their 2003 levels.

Other Fee and Rental Income: The most significant component is development finance fees, which increased from $810,000 in 2003 to $1.4 million in 2004. 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 in 2004 was due to the Authority conducting five new Bond Fund transactions and eight conduit financings.

Other components of the Other Fee and Rental Income line include parking revenue (increased 1.4% to $276,000) and Foreign Trade Zone fees (up 39% in 2004 to $305,000 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 commitment from the federal Ferry Boat Program for a grant in the amount of $800,000 for the Cleveland-Cuyahoga County Port Authority Ferry Feasibility Study and Implementation Project (the "Study"). The Study, which has just been completed, updates and expands data from a 1999 study which was previously commissioned by the Authority, and also incorporates Canadian industry, tourism and governmental feasibility data. The grant required a 20% ($200,000) local match from the Authority. Approximately $351,000 of the grant was recognized in 2004 and $336,000 was recognized in 2003.

- *North Coast Harbor*—$233,000 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 slightly less than the 2003 CAM contributions of $239,000.

- *Crane rental*—$129,000 of the 2004 Third Party Contributions and Other amount is rental income from the Port's heavy lift crane, the Buckeye Booster. Heavy lifts usually consist of large pieces of machinery for manufacturing facilities. Activity picked up dramatically in 2004 as compared to 2003, when the Port had $33,000 in crane rental activities. There was one major heavy lift for a local steel mill in 2004 that accounted for most of the increase.

OPERATING EXPENSES

Operating expenses increased approximately $380,000 (7%) from the prior year. 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.

After depreciation, the remaining Port Activities operating expenses represent the cost of operating the Port Authority which includes *salaries and benefits* (Port Authority personnel and board expenses), *facilities lease and maintenance* (includes maintenance of the Port facilities and lease payments to the City of Cleveland for Docks 24-32), *professional services* (legal, insurance, etc.), *marketing and communications*, *office expense*, and *other expense* (which includes employee business expenses, seminars and education, and Port Authority dues and memberships).

Excluding the impact of depreciation ($287,000), Port *operating expenses* increased by $93,000, and this was due to the items listed below:

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

- $166,000 increase in marketing and communications expense 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 were offset by savings in the following operating expense line items described below:

- Reduction of $141,000 in professional services primarily reflects a decrease in legal expenses pertaining to the eminent domain action and a drop in expenses related to the Ferry Feasibility Study as the project was completed during the year.

- $195,000 reduction in facilities lease and maintenance expense is 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 later in the year.

NONOPERATING REVENUES (EXPENSES)

Net nonoperating revenues decreased approximately $544,000 to $2.4 million (18%) from the prior year. 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 $262,000 (8%) increase is a function of the five new projects which were financed during 2004.

- *Interest expense*—The $573,000 increase in interest expense is again entirely related to the five new 2004 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 the previous year. These two large increases were offset by 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.

NET ASSETS

The following chart details the Authority's net assets at December 31, 2004 and 2003 (as adjusted for the effect of the accounting change):

	December 31,	
	2003	2004
Total	$40,022,754	$42,394,604

Total net assets increased by nearly $2.4 million (or 6%) over their 2003 adjusted levels. The Port generated almost $2.0 million in income before capital grant activity, which is responsible for the remaining portion of the change. See the "Net Assets" section under "Condensed Balance Sheet Information" of this Management's Discussion and Analysis for a detailed description of the change in net assets by category (invested in capital assets, net of related debt, restricted for debt service and unrestricted).

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

After a better than expected cargo year in 2004, maritime revenues and expenses should remain relatively flat in 2005. The Development Finance Group has again increased their income projections from $1.9 million to $2.4 million, although only two projects have closed to-date in 2005. It is generally expected that Port Activities results will remain stable in 2005.

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

BALANCE SHEET
DECEMBER 31, 2004

ASSETS

CURRENT ASSETS:	
Cash and investments	$ 8,499,857
Accounts receivable	674,460
Property taxes receivable	3,300,000
Other receivables	27,792
Prepaid expenses	165,352
Total current assets	12,667,461
CAPITAL ASSETS:	
Land and land improvements	19,823,017
Buildings, infrastructures, and leasehold improvements	33,410,652
Equipment	251,323
Construction in progress	492,702
Total	53,977,694
Less accumulated depreciation	8,250,341
Net book value of capital assets	45,727,353
RESTRICTED AND OTHER ASSETS:	
Restricted cash and investments	18,219,167
Financing lease receivables	9,728,259
Operating lease receivable	591,402
Notes and loans receivable	33,464,865
Debt issuance costs	2,318,690
Other	153,540
Total restricted and other assets	64,475,923
TOTAL	$ 122,870,737

(Continued)

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

BALANCE SHEET
DECEMBER 31, 2004

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 913,795
Deferred income	3,455,205
Accrued wages and benefits	156,689
Current portion of bonds to be repaid by the Authority:	
Cleveland Bulk Terminal Project	60,000
Bond Fund activities—Port Capital Improvements	200,000
Tax Anticipation Notes	1,995,000
State of Ohio 166 Loan	43,674
Total current liabilities	6,824,363
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:	
Accounts payable	510,184
Accrued interest payable	447,121
Current portion of revenue bonds and notes—Bond Fund activities	3,400,000
Total current liabilities payable from restricted assets	4,357,305
OTHER LIABILITIES—Including amounts relating to restricted assets:	
Deferred income	941,229
Revenue bonds and notes, net of current portion:	
Cleveland Bulk Terminal Project	5,325,764
Bond Fund activities	59,541,349
Tax Anticipation Notes	2,042,122
State of Ohio 166 Loan	493,163
Debt repayment security deposits payable	935,838
Other	15,000
Total other liabilities	69,294,465
Total liabilities	80,476,133
NET ASSETS:	
Invested in capital assets, net of related debt	28,651,967
Restricted for debt service	5,600,865
Unrestricted	8,141,772
Total net assets	42,394,604
TOTAL	$ 122,870,737

See notes to financial statements. (Concluded)

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

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

OPERATING REVENUES:	
Wharfage, dockage and storage	$ 1,073,565
Property lease and rentals	1,680,456
Other fee and rental income	2,009,293
Third-party contributions and other	713,158
Total operating revenues	5,476,472
OPERATING EXPENSES:	
Salaries and benefits	1,769,826
Professional services	1,166,025
Facilities lease and maintenance	976,036
Marketing and communications	401,802
Depreciation expense	1,057,700
Office expense	271,510
Other expense	279,512
Total operating expenses	5,922,411
OPERATING LOSS	(445,939)
NONOPERATING REVENUES (EXPENSES):	
Property tax receipts	3,284,624
Income from investments, financing leases and notes receivable	3,404,801
Interest expense	(3,991,898)
Writeoff of property associated with early lease termination	(248,156)
Other—net	(25,744)
Total nonoperating revenues (expenses)—net	2,423,627
INCREASE IN NET ASSETS BEFORE CAPITAL GRANT ACTIVITY	1,977,688
CAPITAL GRANT	394,162
INCREASE IN NET ASSETS	2,371,850
NET ASSETS—Beginning of year:	
As previously reported	39,766,657
Cumulative effect of accounting change	256,097
As restated	40,022,754
NET ASSETS—End of year	$ 42,394,604

See notes to financial statements.

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004

OPERATING ACTIVITIES:	
Receipts from customers	$ 5,349,554
Receipts from other governments	325,484
Payments to suppliers for goods and services	(3,013,901)
Payments to employees	(1,362,433)
Payments of employee benefits	(378,003)
Net cash provided by operating activities	920,701
NONCAPITAL FINANCING ACTIVITIES:	
Net proceeds from property tax collections	3,283,842
Other nonoperating revenues	(13,528)
Net cash provided by noncapital financing activities	3,270,314
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Net proceeds from the issuance of bonds and notes	22,531,770
Principal paid on revenue bonds and notes (including premiums paid on early redemption)	(7,121,750)
Interest paid on revenue bonds and notes	(3,493,028)
Construction loans made	(17,550,228)
Principal received on notes receivable and financing leases	4,232,410
Interest received on notes receivable and financing leases	2,887,099
Acquisition and construction of capital assets	(1,757,490)
Capital grants received	318,907
Other	287,836
Net provided by capital and related financing activities	335,526
INVESTING ACTIVITIES:	
Purchase of investment securities	(18,268,499)
Proceeds from sale and maturity of investment securities	14,640,346
Interest on investments	439,516
Net cash used in investing activities	(3,188,637)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,337,904
CASH AND CASH EQUIVALENTS—Beginning of year	10,609,438
CASH AND CASH EQUIVALENTS—End of year	$ 11,947,342

(Continued)

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004

CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR ARE INCLUDED IN THE FOLLOWING BALANCE SHEET OPTIONS:	
Cash and investments	$ 9,023,478
Restricted cash and investments	2,923,864
TOTAL	$ 11,947,342

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
OPERATING LOSS	$ (445,939)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,057,700
Changes in assets and liabilities:	
Accounts receivable	(152,388)
Operating lease receivables	15,354
Prepaid expenses and other assets	(13,674)
Accounts payable	96,033
Deferred income	335,599
Accrued wages and benefits	28,016
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 920,701

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 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 estimated useful lives are as follows:

Buildings and infrastructures	20-40 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 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 the lease in accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases.*

Operating Leases—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 sheet.

Financing Leases—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.

Loans—Interest and loan origination 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 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.

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 sheet.

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 requires disclosures of common deposit and investment risks such as 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 are effective for financial statements for periods beginning after June 15, 2004. The Authority has not determined the impact, if any, that this statement will have on its future footnote disclosures.

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 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 are effective for fiscal periods beginning after December 15, 2004. The Authority has not determined the impact, if any, that this statement will have on its 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 2004, 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.

At December 31, 2004, the carrying amount of the Authority's deposits was $3,408,563 and the bank balance was $3,730,367, of which $100,131 was covered by federal depository insurance and $3,630,236 was 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.

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.

The Authority's investments are detailed below and are categorized in accordance with the criteria established by the GASB to indicate the level of credit risk assumed as of December 31, 2004. Category 1 includes investments that are insured or registered for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or by its trust department or agent but not in the Authority's name.

	Custodial Credit Risk Category			Fair
Description	**1**	**2**	**3**	**Value**
Commercial paper	$ -	$ 4,365,242	$ -	$ 4,365,242
Federal Home Loan Bank obligations		2,515,228		2,515,228
Federal National Mortgage Association obligations		1,678,564		1,678,564
Federal Home Loan Mortgage Corporation obligations		1,882,000		1,882,000
U.S. Treasury Bills		1,276,214		1,276,214
Money Market Fund		8,410,366		8,410,366
Repurchase agreements			128,413	128,413
Subtotal	$ -	$ 20,127,614	$ 128,413	20,256,027
Uncategorized—Guaranteed Investment Contract				3,054,434
Total investments				$ 23,310,461

The guaranteed investment contract is not categorized as to custodial credit risk because it does not exist in physical or book entry form.

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance at Beginning of Year, As Previously Reported	Effect of Accounting Change (see Note 1)	Balance at Beginning of Year, As Restated	Additions	Deletions	Balance at End of Year
CAPITAL ASSETS NOT BEING DEPRECIATED:						
Land and land improvements	$ 28,322,094	$ (8,499,077)	$19,823,017	$ -	$ -	$19,823,017
Construction in progress	5,929,460		5,929,460	519,529	(5,956,287)	492,702
Total capital assets not being depreciated	34,251,554	(8,499,077)	25,752,477	519,529	(5,956,287)	20,315,719
CAPITAL ASSETS BEING DEPRECIATED:						
Buildings, infrastructures and leasehold improvements	118,457,541	(91,382,223)	27,075,318	6,763,637	(428,303)	33,410,652
Equipment	8,726,993	(8,505,681)	221,312	34,736	(4,725)	251,323
Total capital assets being depreciated	127,184,534	(99,887,904)	27,296,630	6,798,373	(433,028)	33,661,975
Less accumulated depreciation:						
Buildings, infrastructures and leasehold improvements	13,146,774	(5,955,641)	7,191,133	1,042,692	(180,147)	8,053,678
Equipment	2,803,947	(2,617,566)	186,381	15,008	(4,726)	196,663
Total accumulated depreciation	15,950,721	(8,573,207)	7,377,514	1,057,700	(184,873)	8,250,341
Total capital assets being depreciated—net	111,233,813	(91,314,697)	19,919,116	5,740,673	(248,155)	25,411,634
CAPITAL ASSETS—Net	$145,485,367	$ (99,813,774)	$45,671,593	$6,260,202	$ (6,204,442)	$45,727,353

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 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, 2004, 2003 and 2002 were $135,522, $104,322 and $92,105 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 2004, $56,763, of the Authority's total contributions to OPERS was used to fund health care. At December 31, 2004, 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 2003 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.

Investment Return. The investment assumption rate for 2003 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, 2004, there were 369,885 active contributing participants. In addition, at December 31, 2003 (latest information available), the actuarial value of the plan's net assets available for OPEB approximated $10.5 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were $26.9 billion and $16.4 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.

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.

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 2003 levy (collected in 2004) was based upon an assessed valuation of approximately $30.3 billion. The current levy continues through 2008 (collected in 2009).

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.

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 sheet.

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 2.55% on December 31, 2004. 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 provide 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. 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, 2004 approximated the outstanding balance on the Refunding Bonds.

The bonds outstanding at December 31, 2004 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**
2005	$ 60,000	$ 323,455	$ 383,455
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
2010-2014	770,000	1,151,736	1,921,736
2015-2019	980,000	941,807	1,921,807
2020-2024	1,240,000	676,884	1,916,884
2025-2029	1,575,000	339,962	1,914,962
2030-2031	550,000	23,371	573,371
Total payments	5,605,000	4,564,931	10,169,931
Unamortized loss on defeasance	(219,236)		(219,236)
Total	$5,385,764	$4,564,931	$ 9,950,695

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
2005	$ 725,000
2006	725,000
2007	377,883
2008	282,783
2009	282,783
2010-2014	1,413,915
2015-2017	626,380
Total	$4,433,744

During 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 $7.2 million 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 $7.4 million at December 31, 2004, 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, 2004 was composed of a $4 million cash reserve and a $6 million irrevocable letter of credit from a financial institution, which expires on March 1, 2012. In March of 2005, the letter of credit was increased to $9 million.

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

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

Project	Financing Structure	Interest Rate	Final Maturity	Outstanding Balance	Primary Reserve
ESSROC (Series 1997A) (dock improvements)	Operating Lease	5.75%-5.80%	May 15, 2027	$ 3,369,345	$ 368,860
Jergens, Inc. (Series 1998A) (construction of manufacturing facility)	Loan	5.375%	May 15, 2018	4,432,943	572,000
NOACA (Series 1998B) (acquisition and renovation of office facility)	Financing Lease	5.375%	May 15, 2018	2,649,096	340,487
Port Capital Improvements (Series 1999A) (various and other improvements)	Loan	5.375%	May 15, 2019	4,289,965	520,385
Universal Heat Treating (Series 1999B) (acquisition and improvement of manufacturing facility)	Loan	6.50%	Nov. 15, 2014	1,085,000	153,142
Regional Income Tax Agency (Series 2000B) (acquisition of personal property)	Financing Lease	6.00%	Nov. 15, 2010	3,775,000	516,395
CEOGC (Series 2001A) (construction of Head Start facility)	Loan	6.25%	May 15, 2016	3,835,000	451,028
Cleveland Bottle & Supply (Series 2001B) (acquisition and renovation of manufacturing and warehouse facilities)	Loan	6.50%	Nov. 15, 2021	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	1,970,000	216,865
International Steel Group (Series 2002B) (upgrading hot strip mill)	Loan	5.80%	May 15, 2007	3,775,000	616,247
Cleveland Christian Home (Series 2002C) (acquisition and renovation of facility)	Loan	5.25%-5.95%	May 15, 2022	4,910,000	514,096
Heidtman Steel Products, Inc. (Series 2003A) (acquisition and construction of facility)	Financing Lease	6.10%	May 15, 2013	4,070,000	640,858
Luigino's, Inc. (Series 2004A) (acquisition and construction of frozen foods facility)	Loan	5.86%	May 15, 2019	5,000,000	500,000
City of Cleveland, Ohio (Series 2004B) (public improvements)	Tax Increment Financing	4.50%	May 15, 2030	2,965,000	298,805
Tru-Fab Technology, Inc. (Series 2004C) (acquisition of manufacturing facility)	Loan	6.77%	November 15, 2023	1,050,000	106,343
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	885,000
David N. Myers University (Series 2004E) (acquisition and renovation of existing facility)	Loan	4.65%-5.60%	May 15, 2025	5,725,000	572,500
Total				$63,141,349	$ 7,423,011

The bonds outstanding under the Program at December 31, 2004 are payable are follows:

Year	Principal	Interest	Total
2005	$ 3,600,000	$ 3,495,848	$ 7,095,848
2006	3,835,000	3,313,805	7,148,805
2007	3,990,000	3,069,744	7,059,744
2008	3,175,000	2,864,624	6,039,624
2009	3,605,000	2,675,453	6,280,453
2010-2014	17,450,000	10,293,562	27,743,562
2015-2019	15,105,000	5,627,346	20,732,346
2020-2024	9,770,000	2,064,387	11,834,387
2025-2029	2,550,000	293,888	2,843,888
2030	325,000	7,313	332,313
Total payments	63,405,000	$33,705,970	$97,110,970
Unamortized original issue discount	(263,651)		
Recorded balance at December 31, 2004	$63,141,349		

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 (including bond reserve deposits) 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, 2004 are as follows:

	Recorded on Balance Sheet		
Year	Financing Leases	Operating Lease	Total
2005	$ 1,623,658	$ 266,486	$ 1,890,144
2006	1,628,509	263,085	1,891,594
2007	1,617,636	267,815	1,885,451
2008	1,621,201	263,808	1,885,009
2009	1,621,073	267,933	1,889,006
2010-2014	4,212,221	1,320,020	5,532,241
2015-2018	971,096	1,316,950	2,288,046
2020-2024		1,302,751	1,302,751
2025-2029		1,004,364	1,004,364
Total amounts to be received	13,295,394	$ 6,273,212	$19,568,606
Unearned interest income	(3,567,135)		
Net investment in lease	$ 9,728,259		

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

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
2005	$1,995,000	$ 92,895	$2,087,895
2006	2,040,000	51,000	2,091,000
Total payments	4,035,000	$143,895	$4,178,895
Unamortized original issue premium	2,122		
Recorded balance at December 31, 2004	$4,037,122		

No interest costs were capitalized in connection with the ore loader project during 2004. The project was completed in 2004.

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 year ended December 31, 2004 are as follows:

	Balance at Beginning of Year, Previously Reported	Effect of Accounting Change (see Note 1)	Balance at Beginning of Year, As Restated	Increase	Decrease	Balance at End of Year	Due Within One Year
Rock and Roll Hall of Fame and Museum	$ 24,480,000	$ (24,480,000)	$ -	$ -	$ -	$ -	$ -
Applied Industrial Technologies	31,155,038	(31,155,038)					
Cleveland Bulk Terminal	5,353,699		5,353,699	92,065	(60,000)	5,385,764	60,000
Bond Fund Activities	44,427,662		44,427,662	23,628,687	(4,915,000)	63,141,349	3,600,000
2002 Tax Anticipation Notes	6,004,218		6,004,218		(1,967,096)	4,037,122	1,995,000
MetroHealth	10,973,006	(10,973,006)					
MTD Consumer Group	13,511,496	(13,511,496)					
Parma Community General Hospital	22,458,226	(22,458,226)					
University Square	40,406,518	(40,406,518)					
TRW Automotive	634,350	(634,350)					
State of Ohio 166 Loan	578,801		578,801		(41,964)	536,837	43,674
Total	$199,983,014	$ (143,618,634)	$56,364,380	$23,720,752	$ (6,984,060)	$73,101,072	$5,698,674

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 2004 under the operating lease with the City was $461,289.

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 $189,000 in 2005, $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 2005, amounted to $360,058 for the year ended December 31, 2004. The future rentals the Authority is scheduled to receive under the leases total $90,015, all of which are due in 2005.

The Authority is also the lessor of certain real property under operating leases expiring in 2005. Total rental income from these leases amounted to $274,600 for the year ended December 31, 2004. The future rentals the Authority is scheduled to receive under the leases total $63,486, all of which are due in 2005.

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 sheet. Since 1993, the Authority has issued conduit debt obligations for 20 transactions. The aggregate remaining principal amount payable at December 31, 2004 for the Authority's outstanding conduit debt obligations could not be determined; however, their original issue amounts totaled approximately $563 million.

15. MEMORANDUM OF UNDERSTANDING WITH THE CITY OF CLEVELAND

The Authority currently has an eminent domain action pending to acquire approximately 45 acres of property on the lakefront in Cleveland, Ohio known as Whiskey Island ("Whiskey Island Property"). Under a Memorandum of Understanding ("MOU") executed with the City of Cleveland, Ohio, if the Authority is successful in acquiring the Whiskey Island Property, the Authority intends to expand a portion of its operations on half of the Whiskey Island Property and transfer the other half of the property to the City for use as a park. The MOU contains other provisions which impact the leases on the east side of the Cuyahoga River with the City of Cleveland (see Footnote 12). With respect to the Authority's acquisition of the Whiskey Island Property, an amendment to the dock leases for Docks 24 and 26 and a portion of Dock 28 will be executed whereby the Authority's lease term will be extended through December, 2043 and the rentals due under the dock lease for Dock 24 and 26 will be reduced by $250,000 per year. The ultimate outcome of the Authority's eminent domain proceeding cannot be presently determined.

16. NEW MARKET TAX CREDIT PROGRAM

On September 29, 2003, the Authority entered into a Cooperative Agreement with certain third parties, including Northeast Ohio Development Fund LLC ("NEODF"), setting forth various understandings with respect to NEODF obtaining an allocation of tax credits from the federal government under the "New Market Tax Credits Program". The Cooperative Agreement sets forth the procedures for administering the credits and providing project loans with respect to that program. 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.

Under the Cooperative Agreement, the Port Authority has agreed to provide certain loans, in conjunction with the credits, to qualifying projects, based on certain conditions, including compliance with all Port Authority and Ohio law requirements. NEODF may utilize the credits provided it complies with terms and conditions of the Cooperative Agreement and the New Market Tax Credit Program. Under the Cooperative Agreement, the Port Authority has no obligation for compliance under the New Market Tax Credit Program, but receives certain fees and other monies from investments under the New Market Tax Credit Program. As of December 31, 2004, the Port Authority had not made any loans or investments under this program.

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, 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

18. SUBSEQUENT EVENTS

International Steel Group Project—During February, 2005, the loan receivable and related bonds payable (see Note 8) were fully repaid in advance of their scheduled maturity in 2007. No significant gain or loss was recognized by the Authority upon the repayment.

Goodyear Tire & Rubber Project—In May 2005, the Authority issued $4,125,000 of Development Revenue Bonds (Port of Cleveland Bond Fund) Series 2005A (the "2005A Bonds") under its Bond Fund Program to provide a portion of the funds necessary to pay, on behalf of the Summit County Port Authority, the costs related to the acquisition, construction, and installation of certain equipment for use at the Goodyear Tire & Rubber Company's ("Goodyear's) headquarters and research and development facilities located in Akron, Ohio. The funds were provided in conjunction with additional loans made to Goodyear by other parties, including $5,500,000 from the Summit County Port Authority ("Summit Port Bonds"), $7,860,000 from the State of Ohio through the State of Ohio Enterprise Bond Fund (the "OEBF Bonds") and a Research and Development Loan Program loan in the amount of $4,500,000.

The 2005A Bonds are taxable, have a final maturity date of May 15, 2014, and bear interest at the rate of 5.75% per annum. The Authority has a first mortgage lien and security interest in the property on a parity basis with the Summit Port Bonds and the OEBF Bonds. The timing and amount of payments due from Goodyear approximate the debt service requirements for the 2005A Bonds, plus a small administrative charge. The Series 2005A Bonds are not general obligations, are not secured by the full faith and credit or taxing power of the Authority, and are not payable from any of the operating funds of the Authority.

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CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

BALANCE SHEET INFORMATION BY ACTIVITY
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
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
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)	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

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal And Pass-Through Grant Number	Grant Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Direct Program			
Port Security Grant	97.056		$394,162
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through from the Ohio Department of Transportation			
Federal Highway Administration Highway-Planning and Construction Grants	20.205	G020675-11920	340,041
TOTAL EXPENDITURES OF FEDERAL AWARDS			$734,203

See the note to the Supplemental Schedule of Expenditures of Federal Awards.

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

NOTE TO THE SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2004

1. BASIS OF PRESENTATION

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of the Cleveland-Cuyahoga County Port Authority under programs financed by the U.S. government for the year ended December 31, 2004. The Schedule has been prepared in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

For purposes of the Schedule, federal awards include the following (as applicable):

- Direct federal awards
- Pass-through funds received from non-federal organizations made under federally sponsored programs conducted by those organizations.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
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, 2004, and have issued our report thereon dated May 27, 2005, 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.

Compliance

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 that are required to be reported under *Government Auditing Standards*.

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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Authority in a separate letter dated May 27, 2005.

This report is intended solely for the information and use of the Board of Directors and management of the Authority, federal awarding agencies, state funding agencies 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

May 27, 2005

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Board of Trustees
Cleveland-Cuyahoga County Port Authority

Compliance

We have audited the compliance of the Cleveland-Cuyahoga County Port Authority (the "Authority"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying supplemental schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in Finding No. 2004-1 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding procurement of American-made property that are applicable to its Security Grant Program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding No. 2004-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, state funding agencies, 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

May 27, 2005

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2004

Summary of Auditors' Results

- Type of Report Issued on the Financial Statements as of and for the Year Ended December 31, 2004—Unqualified.
- Reportable Conditions in Internal Control Disclosed by the Audit of the Financial Statements—N/A (none reported).
- Noncompliance Noted that is Material to the Financial Statements of the Authority—None.
- Reportable conditions in Internal Control Over Major Federal Financial Assistance Programs Disclosed by the Audit of the Financial Statements—See Finding No. 2004-1.
- Type of Report Issued on Compliance for the Major Federal Financial Assistance Programs—Qualified.
- The audit disclosed audit Finding No. 2004-1 which is required to be reported under Section .510(a) of OMB Circular A-133.
- Major Federal Financial Assistance Program Identified for the Year Ended December 31, 2004—
    - CFDA #97.056 Port Security Grant
- Dollar Threshold Used to Distinguish Between Type A and type B Programs—$300,000.
- The Authority is not considered to be a Low-Risk Auditee as defined under OMB Circular A-133.

Findings Related to the Financial Statements that are Required to be Reported Under *Government Auditing Standards*

None

Findings and Questioned Costs Relating to Federal Awards

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.

***Criteria*—**According to section F.5 of the Assistance Award document, "In the case of any equipment or product that may be authorized to be purchased with federal funds made available in fiscal year 2000 and thereafter, it is the intent of Congress that entities receiving and expending such funds purchase only American-made equipment and products".

***Effect*—**The security equipment that was acquired under this federal award program may not have been American-made.

***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.

***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.

CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY

STATUS OF PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND LEGAL COMPLIANCE

There were no significant or material comments on internal control and legal compliance included in the prior year reports.

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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.

CLERK OF THE BUREAU

CERTIFIED
JULY 12, 2005