

# **Cleveland-Cuyahoga County Port Authority**

**Basic Financial Statements  
December 31, 2010 and 2009**

# Cleveland-Cuyahoga County Port Authority

For the Year Ended December 31, 2010

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Cleveland-Cuyahoga County Port Authority (the "Authority") as of and for the years ended December 31, 2010 and 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Authority, as of December 31, 2010 and 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2010, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*; GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*; and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

The management's discussion and analysis on pages 3 through 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying supplemental schedules on pages 65 through 67 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplemental schedules are the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Cini & Panichi, Inc.*

Cleveland, Ohio  
June 20, 2011

# **Cleveland-Cuyahoga County Port Authority**

## **Management's Discussion and Analysis (Unaudited)**

**For the Year Ended December 31, 2010**

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### **General**

As management of the Cleveland-Cuyahoga County Port Authority (the "Authority"), 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, 2010. Please read this information in conjunction with the Authority's basic financial statements and footnotes beginning on pages 25 and 31 respectively.

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

### **Overview**

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

The Statement of Net Assets presents the Authority's financial position and reports the resources owned by the Authority (assets), obligations owed by the Authority (liabilities), and Authority net assets (the difference between assets and liabilities). The Statement of Revenues, Expenses and Changes in Net Assets present a summary of how the Authority's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. The Statement of Cash Flows provides information about the Authority's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financing activities. The Statement of Fiduciary Net Assets provides information on the assets and liabilities associated with the Authority's issued debt where third parties are the primary obligor for the repayment of the debt. The Authority has no obligation to repay the debt beyond the specific third party revenue sources pledged under the debt agreements. The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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

*North Coast Harbor (NCH)* refers herein to activities involving the maintenance and repair of the NCH common areas and activities involving special events and capital repairs for the benefit of NCH. Funding for maintenance and repair are 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. Funding for special events and capital repairs are paid, as directed by the City of Cleveland, entirely from funds generated from City-owned parking lots as per a Cooperative Agreement between the City of Cleveland and the Authority. Assets, including cash and accounts receivable, are shown as restricted assets on the Authority's Statement of Net Assets. NCH assets are offset by corresponding liabilities on the Authority's Statement of Net Assets. Income and expenses from NCH activities are netted on the Statement of Revenues, Expenses and Changes in Net Assets for fiscal years 2009 and 2010, as they do not reflect the operating results of the Authority.

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

While financing can be provided under a variety of different structures, the Authority has two main programs under which it issues revenue bonds and notes:

*The Authority's Common Bond Fund Program* ("Bond Fund") transactions involve construction or other projects financed through the Authority's Fixed Rate Financing Program. A detailed description of the Bond Fund program can be found in the notes to the basic financial statements. Two projects financed through the Authority's Bond Fund program, Essroc (1997A) and Port Capital Improvements (1999A), relate to the Authority's maritime activities and are reflected on the Authority's Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets.

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

The Authority has no obligations for repayment of the bonds and notes beyond the specific third party revenue sources pledged under the debt agreements; therefore, the debt and any corresponding assets are not recorded on the Authority's Statement of Net Assets, but are shown on the Authority's Statement of Fiduciary Net Assets.

# **Cleveland-Cuyahoga County Port Authority**

## **Management's Discussion and Analysis (Unaudited)**

### **For the Year Ended December 31, 2010**

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

1. For all Bond Fund financing transactions, the lender may look only to the borrower's lease or loan payments (or other stated sources of revenue) for debt service unless a default arises, in which case the reserve system established by the Authority and borrowers in the Bond Fund will make the debt service payments to the extent sufficient funds are available. The Bond Fund Program was established in 1997 with a \$2,000,000 contribution from the Authority's operating funds and was matched with a \$2,000,000 grant from the State of Ohio. This \$4,000,000 in restricted funds, plus approximately \$100,000 in associated interest earnings, is reflected on the Authority's Statement of Net Assets and the earnings on these funds are also recognized as income from investments on the Authority's Statement of Revenues, Expenses, and Changes in Net Assets. In January of 2010, the Authority entered into a Memorandum of Understanding ("MOU") with the Ohio Manufacturers' Association ("OMA") and other entities to receive \$2.5 million to be invested into the Bond Fund Program's system of reserves. As of December 31, 2010, \$1.65 million had been received and is reflected on the Authority's Statement of Net Assets. Interest earnings on the funds received from the MOU will be paid to OMA semi-annually. Any utilization of these reserve funds discussed above would result in a charge to the Authority's earnings.
2. For all Stand Alone debt transactions, the lender may look only to the borrower's lease payments and certain other specified revenue sources, along with borrower cash reserves, to provide funds for debt service payments. The Authority has no obligation to repay this debt, with the exception of the Authority's Cleveland Bulk Terminal facility, which was financed through a non-Bond Fund bond issuance in 1997, 2001, and 2007 and where the Authority is obligated to repay the debt.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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#### Condensed Statement of Net Assets Information

The tables below provide a summary of the Authority's financial position and operations for 2010, 2009 and 2008, respectively. Certain reclassifications have been made to restate the 2009 financial statements in order to conform to the 2010 presentation.

#### *Comparison of 2010 vs. 2009 Results:*

	2010	2009	Change	
			Amount	%
Assets:				
Current assets	\$ 15,605,972	\$ 15,598,663	\$ 7,309	0.1%
Capital assets – net	40,081,428	39,591,904	489,524	1.2%
Restricted and other assets	<u>9,851,249</u>	<u>9,265,266</u>	<u>585,983</u>	<u>6.3%</u>
Total assets	<u>65,538,649</u>	<u>64,455,833</u>	<u>1,082,816</u>	<u>1.7%</u>
Liabilities and net assets:				
Liabilities:				
Current liabilities	4,388,144	6,717,657	(2,329,513)	(34.7%)
Current liabilities payable from restricted assets	781,822	772,784	9,038	1.2%
Other liabilities – including amounts relating to restricted assets	<u>12,428,203</u>	<u>13,038,877</u>	<u>(610,674)</u>	<u>(4.7%)</u>
Total liabilities	<u>17,598,169</u>	<u>20,529,318</u>	<u>(2,931,149)</u>	<u>(14.3%)</u>
Net assets:				
Invested in capital assets net of related debt	29,024,191	27,992,675	1,031,516	3.7%
Restricted for other purposes	7,117,759	6,734,806	382,953	5.7%
Unrestricted	<u>11,798,530</u>	<u>9,199,034</u>	<u>2,599,496</u>	<u>28.3%</u>
Total net assets	\$ <u>47,940,480</u>	\$ <u>43,926,515</u>	\$ <u>4,013,965</u>	<u>9.1%</u>

**Current Assets:** Current assets increased from December 31, 2009 to December 31, 2010 by approximately \$7,300. The largest decrease in this classification came from a \$2.25 million note receivable from Chancellor University, which matured on August 21, 2010. The Chancellor University note was cancelled in exchange for title transfer of land and real estate, recorded on the Statement of Net Assets for approximately \$1,500,000. Additional components of the transaction were: cash payments \$500,000, (\$250,000 of which is a Current Asset as of December 31, 2010), and the execution of a promissory note in the amount of \$250,000. The decreases as a result of the Chancellor transaction were offset by higher unrestricted cash and investment balances provided by positive cash flows after staff reductions and other cost containment measures.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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**Capital Assets:** The Authority's investment in capital assets as of December 31, 2010 and 2009 amounted to approximately \$40.1 million and \$39.6 million, respectively (net of accumulated depreciation). Capital assets before accumulated depreciation increased by approximately \$1.7 million from December 31, 2009 to December 31, 2010. The major component of the increase in capital assets before accumulated depreciation was \$1,500,000 in land and building assets received in the Chancellor University transaction where the Authority took title to the building. Additional capital investments in 2010 included \$122,000 for the dredging of Authority docks and a planned investment in the heavy lift crane, \$21,600 of which was in progress as of December 31, 2010. Finally, the Authority invested approximately \$24,000 in operational equipment, comprised of new doors, timber docks, and communication infrastructure. The \$1.7 million in additions was offset by 2010 depreciation expense of approximately \$1.2 million. A summary of the activity in the Authority's capital assets during the year ended December 31, 2010, is as follows:

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
Land and land improvements	\$ 18,419,075	\$ 205,052	\$ -	\$ 18,624,127
Buildings, infrastructures, and leasehold improvements	34,589,153	1,436,599	(8,245)	36,017,507
Equipment	827,897	4,161	(22,040)	810,018
Construction in progress	-	21,600	-	21,600
	53,836,125	1,667,412	(30,285)	55,473,252
Less accumulated depreciation	(14,244,221)	(1,172,153)	24,550	(15,391,824)
Capital assets – net	\$ 39,591,904	\$ 495,259	\$ (5,735)	\$ 40,081,428

**Restricted and Other Assets:** Restricted and other assets increased approximately \$586,000 from December 31, 2009 to December 31, 2010. The increase is primarily related to two major transactions that took place in 2010 with the Ohio Manufacturers' Association and the transaction with Chancellor University. As of December 31, 2010, the Authority has an \$833,000 receivable due from the OMA and received an additional \$1.65 million in funds which were invested in the Bond Fund Program Reserve. The Authority also has a \$250,000 note to be received from Chancellor University, which was a component of the transaction that forgave a loan that was due to the Authority. The Authority's Bond Program Auxiliary Reserve also increased by \$100,000, to approximately \$248,000. Additionally, there was a \$75,000 increase in deferred outflow of resources, directly related to the implementation of GASB 53. These increases were offset by the Authority paying off a \$2.25 million loan in September of 2010, which was fully collateralized by cash and investments and is no longer restricted. Other decreases resulted from a scheduled \$26,000 decline in operating leases receivable as well as the normal amortization of debt issuance costs totaling \$34,000, and a \$24,000 decrease in grant funds.

**Current Liabilities:** Current liabilities decreased in 2010 by approximately \$2.3 million, mainly due to the Authority's \$2.25 million promissory note to a local financial institution paid on September 10, 2010. In addition, accrued wages and benefits decreased by \$215,000, primarily due to reduced personnel as of December 31, 2010 when compared to the previous year as well as the 2009 employment Settlement Agreement with the Authority's former President and Chief Executive Officer, which was accrued as of December 31, 2009. Accounts payable increased by \$98,000 primarily due to the timing of vendor invoices and a scheduled \$27,000 increase in the current portion of the Authority's debt payable. Deferred income also increased by \$10,000 due to an increase in prepaid tenant rent.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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**Current Liabilities Payable from Restricted Assets:** Current liabilities payable from restricted assets in 2010 remained fairly consistent from 2009. This line item is solely related to the Authority's management of North Coast Harbor, which increased their amounts due to the City of Cleveland and other CAM participants by \$13,200 to a total of \$712,000; of which there was offsetting restricted cash of \$698,500 and receivables of \$13,500.

**Other Liabilities – including amounts relating to restricted assets:** This line item decreased by approximately \$611,000 compared to 2009. The reason for the decrease came from a \$569,000 reduction in the non-current portion of the Authority's long-term debt obligations and a \$131,000 decline in deferred income relating to the scheduled amortization of deferred operating lease income from the CBT property. These decreases were offset by an increase in the derivative related to the CBT interest rate swap of \$75,000 as a result of GASB 53 and the straight-line accounting of the Authority's lease increased accrued rent by \$14,000.

The activity in the Authority's debt obligations outstanding during the year ended December 31, 2010 and 2009, respectively, is summarized below (unamortized premiums and discounts have been combined into the appropriate increase/decrease columns):

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
Cleveland Bulk Terminal	\$ 5,120,000	\$ -	\$ (140,000)	\$ 4,980,000
Port Improvements 1999A	3,172,782	1,283	(265,000)	2,909,065
Essroc 1997A	3,006,515	5,051	(90,000)	2,921,566
State of Ohio 166 Loan	299,932	-	(53,326)	246,606
Note payable	<u>2,250,000</u>	<u>-</u>	<u>(2,250,000)</u>	<u>-</u>
Total	\$ <u>13,849,229</u>	\$ <u>6,334</u>	\$ <u>(2,798,326)</u>	\$ <u>11,057,237</u>

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

**Net Assets:** Net Assets serves as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$47.9 million at the close of the most recent fiscal year.

The largest portion of the Authority's net assets (approximately 61%) 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.

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

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

#### Comparison of 2009 vs. 2008 Results:

	2009	2008	Change	
			Amount	%
<b>Assets:</b>				
Current assets	\$ 15,598,663	\$ 12,505,305	\$ 3,093,358	24.7%
Capital assets – net	39,591,904	40,592,789	(1,000,885)	(2.5%)
Restricted and other assets	9,265,266	12,501,526	(3,236,260)	(25.9%)
Total assets	<u>64,455,833</u>	<u>65,599,620</u>	<u>(1,143,787)</u>	<u>(1.7%)</u>
<b>Liabilities and net assets:</b>				
<b>Liabilities:</b>				
Current liabilities	6,717,657	4,541,478	2,176,179	47.9%
Current liabilities payable from restricted assets	772,784	674,773	98,011	14.5%
Other liabilities – including amounts relating to restricted assets	<u>13,038,877</u>	<u>16,088,140</u>	<u>(3,049,263)</u>	<u>(19.0%)</u>
Total liabilities	<u>20,529,318</u>	<u>21,304,391</u>	<u>(775,073)</u>	<u>(3.6%)</u>
<b>Net assets:</b>				
Invested in capital assets net of related debt	27,992,675	28,468,899	(476,224)	(1.7%)
Restricted for other purposes	6,734,806	7,331,262	(596,456)	(8.1%)
Unrestricted	<u>9,199,034</u>	<u>8,495,068</u>	<u>703,966</u>	<u>8.3%</u>
Total net assets	\$ <u>43,926,515</u>	\$ <u>44,295,229</u>	\$ <u>(368,714)</u>	<u>(0.8%)</u>

**Current Assets:** Current assets increased from December 31, 2008 to December 31, 2009 by approximately \$3.1 million. The largest increase in this classification came from a \$2.25 million note receivable from Chancellor University, which matures on August 21, 2010, having been previously classified in Restricted and other assets, as well as an additional \$161,000 receivable that is due in March of 2010. Other increases in current assets related to a \$169,000 increase in accounts receivable from customers who had not paid balances due as of December 31, 2009 and a \$557,000 increase in the Authority's unrestricted cash and investment balances. Even though the Authority shows a decrease in Net Assets for 2009, cash flow from noncapital financing activities and investing activities helped contribute to an overall positive cash flow balance for 2009.

**Capital Assets:** The Authority's investment in capital assets as of December 31, 2009 and 2008 amounted to approximately \$39.6 million and \$40.6 million, respectively (net of accumulated depreciation). Capital assets before accumulated depreciation increased by approximately \$295,000 from December 31, 2008 to December 31, 2009. The major component of the fixed asset activity was related to wind damage to Warehouse A that required a portion of the roof to be replaced, which was paid for from insurance proceeds. The \$102,000 reduction in net capital assets was also a direct result of the wind damage, as the carrying value of the replaced portion of the roof was written-off. Accumulated depreciation increased approximately \$1.2 million during the same period, resulting in the decrease in the net capital assets. A summary of the activity in the Authority's capital assets during the year ended December 31, 2009, is as follows:

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
Land and land improvements	\$ 18,419,075	\$ -	\$ -	\$ 18,419,075
Buildings, infrastructures, and leasehold improvements	34,396,256	294,570	(101,673)	34,589,153
Equipment	<u>827,897</u>	<u>-</u>	<u>-</u>	<u>827,897</u>
	53,643,228	294,570	(101,673)	53,836,125
Less accumulated depreciation	<u>(13,050,439)</u>	<u>(1,234,451)</u>	<u>40,669</u>	<u>(14,244,221)</u>
Capital assets – net	\$ <u>40,592,789</u>	\$ <u>(939,881)</u>	\$ <u>(61,004)</u>	\$ <u>39,591,904</u>

**Restricted and Other Assets:** Restricted and other assets decreased by \$3.2 million December 31, 2008 to December 31, 2009. The majority of the decrease is attributable to receivables relating to the sale of Myers University to Chancellor University. A \$2.25 million note was reclassified to current assets, as was an additional \$504,000 in previous receivables that have either been collected or reclassified. In addition, the value of the Authority's derivative related to the CBT bonds decreased by approximately \$361,000.

**Current Liabilities:** Current liabilities increased in 2009 by approximately \$2.2 million, mainly due to the Authority's \$2.25 million promissory note to a local financial institution coming due on September 10, 2010. Other current liabilities remained relatively consistent with previous periods. Although accrued wages and benefits only increased by \$34,000, there were numerous changes in this account. As of December 31, 2009, the Authority accrued approximately \$180,000 in wage and benefits related to the resignation of the Authority's President and CEO. As part of a Settlement Agreement reached between the CEO and the Board of Directors, the Authority agreed to two (2) \$150,000 payments to the former CEO, along with continued health coverage until May of 2011. This increase in accrued wages and benefits was offset by the fact the Authority had no accrued wages as of December 31, 2009, due to the timing of the year-end payroll. This resulted in a \$68,000 decrease in accrued wages attributable to normal payroll. Other decreases were in the Authority's vacation accrual, which was reduced by \$83,000, as there were numerous personnel changes at the end of 2009. In December 2009, the Authority eliminated four positions within the organization, which reduced the year-end vacation accrual. Additionally, the Authority had two retirements of long-time employees in 2009, which also contributed to the decrease in the vacation accrual.

**Current Liabilities Payable from Restricted Assets:** Current liabilities payable from restricted assets in 2009 increased by \$98,000 from 2008. This line item is solely related to the Authority's management of North Coast Harbor, which increased the amounts due to the City of Cleveland and other CAM participants by \$98,000 to a total of \$699,000; of which there was an offsetting of restricted cash of \$668,000 and receivables of \$31,000.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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**Other Liabilities – including amounts relating to restricted assets:** This line item decreased by \$3.0 million or 19% compared to 2008. The reason for the decrease is due to the previously mentioned \$2.25 million note payable becoming due in September of 2010 and now is classified as a current liability. Other decreases came from a \$542,000 reduction in the Authority's long-term debt obligations and the amortization of deferred operating lease income from the CBT property of \$126,000. In addition, the liability associated with the Authority's derivative on the CBT bonds decreased by approximately \$361,000 in 2009 when compared to 2008. These decreases were offset by an increase in accrued rent of \$230,000 as of December 31, 2009. This amount represents the accrual recorded by the Authority to account for the rent holiday received in negotiating a new office lease at One Cleveland Center.

The activity in the Authority's debt obligations outstanding during the year ended December 31, 2009 and 2008, respectively, is summarized below (unamortized premiums and discounts have been combined into the appropriate increase/decrease columns):

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
Cleveland Bulk Terminal	\$ 5,260,000	\$ -	\$ (140,000)	\$ 5,120,000
Port Improvements 1999A	3,421,399	1,383	(250,000)	3,172,782
Essroc 1997A	3,091,321	5,194	(90,000)	3,006,515
State of Ohio 166 Loan	351,170	-	(51,238)	299,932
Note payable	<u>2,250,000</u>	<u>-</u>	<u>-</u>	<u>2,250,000</u>
Total	\$ <u>14,373,890</u>	\$ <u>6,577</u>	\$ <u>(531,238)</u>	\$ <u>13,849,229</u>

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

**Net Assets:** Net Assets serves as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$43.9 million at December 31, 2009.

The largest portion of the Authority's net assets (approximately 64%) 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.

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

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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

The Authority's operations increased its net assets by \$4.0 million in 2010. Key elements of these changes are summarized below:

	2010	2009	Change	
			Amount	%
Operating revenues:				
Wharfage, dockage, and storage	\$ 1,040,031	\$ 471,015	\$ 569,016	120.8%
Property lease and rentals	1,678,523	1,707,715	(29,192)	(1.7%)
Financing fee income	1,136,479	1,377,519	(241,040)	(17.5%)
Foreign trade zone fees	117,500	137,500	(20,000)	(14.5%)
Dredge disposal fees	80,381	162,419	(82,038)	(50.5%)
Parking revenues and other	<u>417,773</u>	<u>282,691</u>	<u>135,082</u>	<u>47.8%</u>
Total operating revenues	<u>4,470,687</u>	<u>4,138,859</u>	<u>331,828</u>	<u>8.0%</u>
Operating expenses:				
Salaries and benefits	1,840,476	3,321,180	(1,480,704)	(44.6%)
Professional services	1,134,344	1,578,848	(444,504)	(28.2%)
Facilities lease and maintenance	958,730	830,962	127,768	15.4%
Marketing and communications	255,498	259,075	(3,577)	(1.4%)
Depreciation expense	1,172,153	1,234,451	(62,298)	(5.0%)
Office expense	359,984	384,776	(24,792)	(6.4%)
Other expense	<u>218,275</u>	<u>271,180</u>	<u>(52,905)</u>	<u>(19.5%)</u>
Total operating expenses	<u>5,939,460</u>	<u>7,880,472</u>	<u>(1,941,012)</u>	<u>(24.6%)</u>
Operating loss	<u>(1,468,773)</u>	<u>(3,741,613)</u>	<u>2,272,840</u>	<u>60.7%</u>
Nonoperating revenues (expenses):				
Property tax receipts	3,251,997	3,286,413	(34,416)	(1.0%)
Nonoperating grant revenue – State	-	5,000,000	(5,000,000)	(100.0%)
Nonoperating grant revenue – other	2,560,333	227,700	2,332,633	1024.4%
Income from investments	461,542	465,923	(4,381)	(0.9%)
Interest expense	(785,399)	(812,997)	27,598	(3.4%)
Nonoperating grant disbursements – State	-	(5,000,000)	5,000,000	(100.0%)
(Loss)/gain on disposal of fixed assets	<u>(5,735)</u>	<u>205,860</u>	<u>(211,595)</u>	<u>(102.8%)</u>
Total nonoperating revenues – net	<u>5,482,738</u>	<u>3,372,899</u>	<u>2,109,839</u>	<u>62.6%</u>
Change in net assets	4,013,965	(368,714)	4,382,679	1,188.6%
Net assets – beginning of year	<u>43,926,515</u>	<u>44,295,229</u>	<u>(368,714)</u>	<u>(0.8%)</u>
Net assets – end of year	\$ <u>47,940,480</u>	\$ <u>43,926,515</u>	\$ <u>4,013,965</u>	<u>9.1%</u>

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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**Operating Revenues:** Collectively, total operating revenues increased by nearly \$332,000, up from \$4.1 million in 2009. The amount of cargo handled by the Authority increased substantially in 2010 compared to 2009, when the Authority operated in an extremely challenging economic environment, as did most public and private sector enterprises. The Authority's maritime business is correlated with local steel consumption, which deteriorated greatly in 2009 and rebounded in 2010. The increase in tonnages were offset by reduced base rentals from the Authority's various operating agreements, which are re-negotiated each year. Additionally, financing fee income decreased, mainly due to a decrease in administrative fees as a result of six bond redemptions that took place in 2010.

A discussion of the components of operating revenues and the corresponding changes are as follows:

**Wharfage, Dockage, and Storage:** These revenues are generated from Authority cargo movements and they collectively increased 121% from \$471,000 in 2009 to approximately \$1,040,000 in 2010. Overall tonnage handled by our primary break-bulk terminal operator increased by 130,516 tons or 78% to 297,066. This increase resulted in a \$191,000 increase in wharfage and dockage revenues attributable to our primary break-bulk operator. The increase indicates significant gains over 2009 due to the economic recovery, but is still below recent historical averages. Additionally, throughput at the Cleveland Bulk Terminal facility, leased by a private company, increased by 171% for a total of approximately 2.1 million in billable tons of iron ore and limestone. This increased wharfage revenues at the CBT facility by \$373,000 over the previous year. The facility supplies raw materials to a local steel plant, which also indicates increasing post-recession demand, though slightly below historical averages. The additional \$5,000 increase came from additional security and storage fees.

**Property Lease and Rentals:** Property lease and rentals declined by approximately \$29,000 or 2.0% in 2010, primarily due to the re-negotiation of the two annual Operating Agreements. The Operating Agreement entered into in March of 2010 for Dock 20 contained a 25% reduction in base rental payments compared to the previous year. This resulted in a \$36,000 decline in revenues. Additionally, the Operating Agreement with the Authority's primary terminal operator was restructured, and included a lower base rental. This resulted in a \$15,000 decline, but was offset by higher revenues from the tonnage-based portion of the agreement. The increase in tonnage resulted in an additional \$10,000 in income in comparison to 2009. Additionally, bad debt expense decreased by \$11,000 in 2010, which resulted in a net increase in revenues. All other leases remained consistent with previous periods.

**Financing Fee Income:** Development finance fees decreased by \$241,000 in 2010 to \$1.1 million. Development finance fee income is essentially earned in three ways: (1) closing fees, which are one-time fees charged on Stand Alone and Bond Fund projects based on the amount financed at the time the bonds are issued; (2) bond service fees, which are ongoing annual fees charged on certain projects with principal outstanding; and (3) application and acceptance fees which are non-refundable monies received by the Authority prior to the issuance of bonds or notes. In 2010, the Authority assisted in financing two large transactions (Flats East Bank Project and Independence Research Park), resulting in \$405,000 in closing fees, which was a \$72,000 decrease compared to 2009. An additional \$170,000 in closing fees resulted from five smaller projects.

Approximately \$544,000 in financing fee income related to existing projects and the administrative fees associated with them, which was a \$134,000 decrease from 2009. The decrease related to the redemption of bonds issued for six projects totaling \$123,000 in annual administrative fees. Additionally, the continued

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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reduction in principal on outstanding projects, which is offset by fee income generated from new transactions, reduces annual administrative fees.

Finally, the Authority received \$35,000 less in application and acceptance fees in 2010, mainly due to a \$50,000 acceptance fee that was collected for the Flats East Bank project in 2009, which closed in 2010.

**Foreign Trade Zone Income:** Foreign Trade Zone fees declined by \$20,000 in 2010 to \$117,500. The decline in Foreign Trade Zone enrollment continues as a result of changes to the State of Ohio tax code. The tax code change eliminated a tax on inventory, providing less of an incentive for a company to participate in the FTZ program. The Authority had two participants decline to participate in the program, resulting in \$30,000 less revenue compared to 2009. The decrease was offset by a \$10,000 increase in de-activation fees charged by the Authority when a company ceases to be part of the foreign trade zone.

**Dredge Disposal Fees:** In 2008, the Authority began to enter into dredge disposal agreements with organizations that have a need to store privately dredged material in Dike Disposal Site 12, which is controlled by the Authority and is on the north side of Burke Lakefront Airport, which is controlled by the Authority. Total private dredge disposal needs dropped from 23,200 cubic yards in 2009 to 11,500 cubic yards in 2010, resulting in an \$82,000 decline in revenue.

**Parking Revenues and Other:** Parking and other revenues increased by \$135,000 or 48% compared to 2009. The Authority's parking revenues relate only to revenues that can be utilized by the Authority and are not associated with the CAM or the City of Cleveland Agreements concerning NCH. The current parking agreement with the Cleveland Browns for the Authority to provide a certain number of spots on the date of home football games is largely fixed and resulted in \$225,000 in revenue in 2010, which is consistent with previous periods. Additional parking, either owned or leased by the Authority, is variable and is affected by the number of special events held near the Authority docks, as well as attendance at Cleveland Browns home games. The variable portion of the parking revenues increased by \$42,000 in 2010 when compared to 2009, largely as a result of the "Tall Ships" festival that was held on the lakefront in July of 2010. Other income increased by \$93,500 in 2010. The increase includes the return of a \$47,000 loan commitment fee from the State of Ohio and an additional \$30,000 in rental revenue for the sub-lease of Authority office space to a third party. Lastly, the Authority received approximately \$16,000 in additional fees for crane rental related to special project cargo in 2010.

**Operating Expenses:** Operating expenses decreased by approximately \$1,940,000 (25.0%) in 2010 compared to 2009. The most significant operating expenses of the Authority are salary and benefit costs, which decreased by 45% or \$1,481,000. The Authority underwent significant changes in the fourth quarter of 2009, as the President and CEO resigned and four positions were eliminated. The Authority eliminated two additional positions in 2010 and had another three senior-level positions unfilled for the majority of 2010. Also, in December of 2009, the Authority appointed an interim President and CEO, who received a compensation of \$1 until a permanent President and CEO was appointed in June of 2010. Staffing levels at the Authority were at their lowest levels in over five years and one-third less than they were during the second quarter of 2009. Because of the position eliminations, the vacant senior-level positions, and the \$1 service of the interim President and CEO, total salaries were reduced by \$1,245,000 in 2010 compared to 2009.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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Additional salary and benefit costs, all of which are directly tied to the number of employees, declined significantly. OPERS contributions decreased by \$128,000, Medicare and health-care benefit expenses decreased by \$106,000 and workers compensation costs were down by \$20,000 compared to 2009. Unemployment costs increased by \$22,000, due to position eliminations.

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

The decrease in these operating expenses during 2010 is detailed below:

- Professional services decreased by \$444,500 or 28.0% as compared to 2009. The Authority underwent major changes in 2010 and re-evaluated numerous initiatives by the previous administration, some of which were either scaled back or abandoned in 2010. In 2009, there was a \$500,000 expenditure relating to the completion of a master plan which assessed the redevelopment and potential market for alternative uses of existing Authority docks, should the maritime facilities be relocated to an alternative location. Additionally, the Authority spent approximately \$179,000 in planning and engineering costs to evaluate moving Authority facilities to an alternative location. Other than a \$20,000 re-evaluation of certain port location sites in 2010, the Authority realized a \$659,000 savings from ceasing work on relocating the Authority docks and planning for future uses. The Authority spent an additional \$46,000 in 2009 planning for an "international trade district," a planned industrial area that would be adjacent to the yet-to-be relocated maritime docks. Planning for this activity also ceased in 2010 and no funds were expended. There were other significant decreases in 2010, as the Authority spent \$42,000 in 2009 to have all property surveyed, \$41,000 on temporary labor, and \$39,000 on a study involving the instrument landing system at Burke Lakefront Airport. No funds were spent on these initiatives in 2010. Due to the change in direction and aggressive expense management, legal expenses were reduced by \$36,000, government relation expenses were reduced by \$23,000, and an additional \$17,000 in miscellaneous expenses were eliminated.

These decreases were offset by an \$84,000 fee for the engagement of an executive search firm, which resulted in the hire of the Authority's permanent President and CEO in June of 2010. Additionally, the Authority entered into an agreement with a professional services firm for a variety of services to assist in planning for the Authority's future which will culminate in the development of a comprehensive strategic business plan. The scope of the contract includes providing current market analysis, assessing competitive market positions, identifying potential market opportunities, developing cargo projections, developing operating profiles, identifying alternatives for terminal development, financial evaluation, estimating economic impact, and advising on dredging issues. Approximately \$315,000 was expended during 2010, on this work, for which completion of the final report is expected in the third quarter of 2011. There was an additional \$25,000 expense for the Authority to receive a rating from Standard & Poor's on its Common Bond Fund Program, as Fitch Ratings withdrew their coverage of Ohio ports in 2010. Finally, the Authority spent \$23,000 on a consultant to revive discussions with Port Stanley regarding a cross-lake ferry service. Insurance related costs increased by \$16,000, as the Authority purchased terrorism insurance and updated the replacement value of the facilities. Miscellaneous bank and letter of credit fees increase by approximately \$3,000 in 2010.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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- Facilities lease and maintenance expense increased by \$128,000 from 2009 levels. The 2009 decrease was due largely to the scaling back of expenditures that took place in 2009 to offset losses due to the weakened economic environment. Repairs and maintenance costs increased by approximately \$93,000 from 2009. This included approximately \$32,000 for an emergency crane rental that was required to handle cargo due to an unplanned heavy-lift crane repair. An additional \$16,000 was expended to prepare the grounds and docks for a festival, entitled "Tall Ships" held during July of 2010. The remaining \$45,000 was primarily deferred maintenance from 2009, which was performed in 2010. Bid expenses and utility costs increased \$40,000 due to increased energy rates and additional utility costs at one of the Authority's warehouse which is no longer being utilized by the Terminal Operator.
- Marketing and communication expenses decreased by \$3,600 to \$255,500 in 2010 as compared to 2009. In 2009, this category of expenses was notably low, as discretionary expenses were limited due to the slowdown of the global economy. Due to transition of staff, including the President and CEO, as well as organizational shift in strategy, marketing and communication expenses were again limited in 2010. The Authority decreased expenditures such as communications services, travel and business development by a total of \$42,000. These decreases were offset by \$29,000 more in advertising costs in 2010, as the Authority co-sponsored a festival entitled "Tall Ships" in 2010 for \$50,000. Finally, an additional \$10,000 was invested in marketing support for the Authority's Foreign Trade Zone program.
- Office expenses decreased by \$25,000 to \$360,000 in 2010. The most significant reason for the decrease was a \$15,000 reduction in the common area maintenance fee calculation by Authority's landlord at One Cleveland Center. Other decreases, for items such as office supplies, equipment, phone, and parking, were attributable to a reduced number of employees on staff for 2010.
- Other expenses decreased by \$53,000 to \$218,000 in 2010. The decrease is made up of several factors. First, several industry memberships were either not renewed or reduced in 2010, yielding a decrease of approximately \$20,000 in this category. Second, the Authority paid a commitment fee of \$32,000 to the Ohio Department of Development for a Logistics and Distribution Stimulus Loan for a rail improvement project. The 2010 commitment fee was \$15,000 less than the 2009 fee, which was for a project that was later abandoned. Meeting expenses decreased by approximately \$13,000 due to a reduction in the number of Authority board and committee meetings. Finally, employee related expenses, such as travel and professional development decreased by \$5,000, primarily due to the reduction in staffing.

**Nonoperating Revenues (Expenses):** Net nonoperating revenues increased by \$2.1 million in 2010, largely due to funds received from the Ohio Manufacturers' Association. The OMA funds and additional changes were:

- **Property tax receipts:** The largest portion of nonoperating revenues results from the Authority's .13 mill property tax levy. This amount remained relatively consistent with its 2009 levels as the millage relating to this levy did not change and property values and collection rates remained consistent.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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- **Nonoperating grant revenue – State:** In May of 2007, the Authority was awarded a \$5,000,000 grant from the State of Ohio to assist in investments being made for the NASA Plum Brook Space Power Facility in Erie County, Ohio. In 2009, these funds were received by the Authority and disbursed to NASA to reimburse them for the costs incurred in developing the technical center. No grant funds were received by the Authority in 2010.
- **Nonoperating grant revenue – other:** Nonoperating grant revenue increase by approximately \$2.3 million to \$2.6 million in 2010. FirstEnergy, under an agreement reached with the Ohio Manufacturers' Association, awarded the Authority a \$2.5 million grant. The grant was awarded to support the Authority's financing effort and funds received are being invested in the Common Bond Fund Program's system of reserves. In 2008, the Authority was awarded a \$450,000 grant from the Cleveland Foundation for "Transformative Investment Initiatives." In June of 2010, a request for reallocation of use was approved and the grant was reduced to a total of \$327,700. In 2010, the \$77,000 expended was recognized as revenue, which was \$151,000 less than the amount recognized in 2009. The remaining \$23,000 was deferred until 2011.
- **Income from investments:** Investment income decreased by \$4,000 in 2010 compared to 2009. The global recession depressed interest rates to historic lows and the Authority earned very little interest on its cash balances. Additionally, investments owned by the Authority with call provisions were all exercised and reinvested at significantly lower interest rates. Interest rates did not improve in 2010 and the Authority's investment options are limited.
- **Interest expense:** The \$28,000 decrease is primarily a result of the continued reduction of principal of the Authority's existing, fixed-rate, direct debt obligations. This resulted in a \$31,000 decrease in interest expense in 2010 when compared to 2009. Interest expense from the bonds securing the CBT facility, which are variable-rate demand bonds, increased by \$3,000 due to slightly higher interest rates and swap fees as a result of the financial crisis.
- **Loss/gain on disposal of fixed assets:** In 2009 one of the Authority's warehouses (Warehouse A) was damaged from high winds. Approximately 25% of the roof needed to be replaced and was covered under the Authority's property insurance coverage. After accounting for the receipt of the insurance proceeds and writing-off a portion of the roof that was replaced, a \$206,000 gain was recognized. In 2010, the Authority recognized a \$6,000 loss associated with the disposal of inoperable machinery and equipment.

# Cleveland-Cuyahoga County Port Authority

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### For the Year Ended December 31, 2010

The Authority's operations decreased its net assets by \$369,000 in 2009. Key elements of these changes are summarized below:

	2009	2008	Change	
			Amount	%
Operating revenues:				
Wharfage, dockage, and storage	\$ 471,015	\$ 1,063,188	\$ (592,173)	(55.7%)
Property lease and rentals	1,707,715	1,843,668	(135,953)	(7.4%)
Financing fee income	1,377,519	869,491	508,028	58.4%
Foreign trade zone fees	137,500	365,000	(227,500)	(62.3%)
Dredge disposal fees	162,419	172,844	(10,425)	(6.0%)
Parking revenues and other	282,691	321,401	(38,710)	(12.0%)
Total operating revenues	<u>4,138,859</u>	<u>4,635,592</u>	<u>(496,733)</u>	<u>(10.7%)</u>
Operating expenses:				
Salaries and benefits	3,321,180	2,626,760	694,420	26.4%
Professional services	1,578,848	1,619,520	(40,672)	(2.5%)
Facilities lease and maintenance	830,962	990,888	(159,926)	(16.1%)
Marketing and communications	259,075	501,441	(242,366)	(48.3%)
Depreciation expense	1,234,451	1,236,715	(2,264)	(0.2%)
Office expense	384,776	338,543	46,233	13.7%
Other expense	271,180	208,062	63,118	30.3%
Total operating expenses	<u>7,880,472</u>	<u>7,521,929</u>	<u>358,543</u>	<u>4.8%</u>
Operating loss	<u>(3,741,613)</u>	<u>(2,886,337)</u>	<u>(855,276)</u>	<u>(29.6%)</u>
Nonoperating revenues (expenses):				
Property tax receipts	3,286,413	3,266,951	19,462	0.6%
Nonoperating grant revenue – State	5,000,000	-	5,000,000	100.0%
Nonoperating grant revenue – other	227,700	-	227,700	100.0%
Income from investments	465,923	853,606	(387,683)	(45.4%)
Interest expense	(812,997)	(798,012)	(14,985)	1.9%
Nonoperating grant disbursements – State	(5,000,000)	-	(5,000,000)	100.0%
Gain on disposal of fixed assets	205,860	-	205,860	100.0%
Total nonoperating revenues – net	<u>3,372,899</u>	<u>3,322,545</u>	<u>50,354</u>	<u>1.5%</u>
Change in net assets before special item	(368,714)	436,208	(804,922)	(184.5%)
Special item – loan loss	-	(1,024,745)	1,024,745	100.0%
Change in net assets	(368,714)	(588,537)	219,823	37.4%
Net assets – beginning of year, restated	<u>44,295,229</u>	<u>44,883,766</u>	<u>(588,537)</u>	<u>(1.3%)</u>
Net assets – end of year	\$ <u>43,926,515</u>	\$ <u>44,295,229</u>	\$ <u>(368,714)</u>	<u>(0.8%)</u>

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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**Operating Revenues:** Collectively, total operating revenues decreased by nearly \$497,000, down from \$4.6 million in 2008. For most of 2009, the Authority operated in an extremely challenging economic environment, as did most public and private sector enterprises. The Authority's maritime business is correlated with local steel consumption, which deteriorated greatly in 2009.

In February of 2009, Fitch Ratings downgraded the Authority's implied rating to 'BBB-' from 'BBB' and revised the Outlook to 'Negative' from 'Stable'. The downgrade to 'BBB-' cited the "financial strain the Authority faces beginning in 2009 due to lower forecasted revenues and higher expenses, primarily attributed to the current economic downturn and as a result of additions to personnel which have increased salary and benefit costs as well as other operating expenses."

A discussion of the components of operating revenues and the corresponding changes are as follows:

**Wharfage, Dockage, and Storage:** These revenues are generated from Authority cargo movements and they collectively decreased 56% from \$1,063,000 in 2008 to approximately \$471,000 in 2009. Overall tonnage handled by our primary break-bulk terminal operator decreased by 211,274 tons or 56% to 166,550. This decrease resulted in a \$176,000 decrease in wharfage and dockage revenues attributable to our primary break-bulk operator. The large decrease was a result of the global recession, which affected demand for steel consumption in Northeast Ohio fairly dramatically. Additionally, throughput at the Cleveland Bulk Terminal facility, leased by Carmeuse Lime & Stone, Inc., decreased by 66% to a total of 780,657 of inbound tons of iron ore and limestone. This decreased wharfage revenues at the CBT facility by \$405,000 from the previous year. The facility supplies iron ore to a local steel plant, which was idled for a large portion of the 2009 fiscal year, weakening demand. The remaining \$11,000 decline was related to a drop in storage revenues, which was also related to the slowdown in demand for break-bulk goods.

**Property Lease and Rentals:** The \$136,000 or 7.4% decrease in property lease and rentals is primarily due to the variable portion of the Operating Agreement with the Authority's sole terminal operator, Federal Marine Terminals ("FMT"), which took effect in April of 2008. The Agreement called for a Volume Sharing Fee, which is dependent on the annual tonnage handled at the facility, which declined 56% and resulted in a \$158,000 decline in rental payments. This decline was offset slightly by an additional \$31,000 in rentals received from submerged land leases from the Ohio Department of Natural Resources. The only other material change was the Authority taking an \$11,000 charge for bad debt expense from one of its tenants. Smaller increases of about \$2,000 were achieved in rental payment for those tenants under long-term lease, where increases were either scheduled or subject to a CPI increase.

**Financing Fee Income:** Development finance fees increased by \$508,000 in 2009 to \$1.4 million. Development finance fee income is essentially earned in three ways: (1) closing fees, which are one-time fees charged on Stand Alone and Bond Fund projects based on the amount financed at the time the bonds are issued; (2) bond service fees, which are ongoing annual fees charged on certain projects with principal outstanding; and (3) application and acceptance fees which are non-refundable monies received by the Authority prior to the issuance of bonds or notes. In 2009, the Authority assisted in financing two large transactions (Eaton Corporation Headquarters and Veterans Affairs Hospital), resulting in \$625,000 in closing fees. Additionally, the Authority had received \$75,000 in fees from projects that did not close in 2009 (Flats East Bank and Higbee TIF). In 2008, the Authority worked on more projects, but they were of a much smaller scale and resulted in fewer closing fees.

# Cleveland-Cuyahoga County Port Authority

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### For the Year Ended December 31, 2010

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Approximately \$678,000 in financing fee income related to existing projects and the administrative fees associated with them, which was a \$37,000 decrease from 2008. The decrease related to the redemption of bonds issued for a project with \$100,000 in annual administrative fees. Additionally, the continued reduction in principal on outstanding projects, which is offset by fee income generated from new transactions, reduces annual administrative fees.

**Foreign Trade Zone Income:** Foreign Trade Zone fees declined by \$227,500 in 2009 to \$137,500. This 62% decline was a direct result of changes to the State of Ohio tax code which eliminated a tax on inventory, which provided less of incentive for a company to participate in the FTZ program. The number of participants in the program declined to only 7 participants in 2009 versus 18 in 2008.

**Dredge Disposal Fees:** In 2008, the Authority Board of Directors authorized a resolution for the Authority to enter into dredge disposal agreements with organizations that may have a need to store privately dredged material in Dike Disposal Site 12 at the north side of Burke Lakefront Airport. The Authority accepted 23,203 cubic yards of dredged material from private facilities at a charge of \$7 per cubic yard. This was a 6% decline from 2008.

**Parking Revenues and Other:** These parking revenues, which total \$283,000 in 2009, relate only to revenues that can be utilized by the Authority and are not associated with the CAM Agreement with NCH. The current parking agreement is largely fixed, but does have a variable component that is affected by the number of special events held near the Authority's docks, as well as attendance at Cleveland Browns home games. The variable portion of the parking revenues decreased by \$16,000 in 2009 when compared to 2008. Other income items include the Authority's administrative fee for NCH (\$10,000), which is consistent with previous periods. There was no use of the Authority's heavy lift crane nor other operating revenues in 2009, which accounted for a \$23,000 decrease in this line item.

**Operating Expenses:** Operating expenses increased approximately \$359,000 (4.8%) in 2009 compared to 2008. The most significant operating expense of the Authority are salary and benefit costs, which increased by 26.4% or \$694,000. Of this increase, \$541,000 related to higher salaries and severance costs compared to 2008. As the result of the Authority's strategic plan in 2007, numerous positions were added to the organizational structure throughout 2008, with the full-year effect taking place in 2009. Additionally, in November of 2009, the Board of Directors entered into a Separation Agreement with the President and CEO. The Agreement called for the Authority to pay the former executive a total of \$300,000 in two installments, as well as continued health care coverage for the next 18 months. The total amount of expense recognized from this arrangement in 2009 was \$295,277. Other categories that experienced significant increases (mainly as a result of increased personnel) were PERS contributions (\$42,000), Medicare, dental and hospitalization expenses (\$97,000), and workers compensation and unemployment costs (\$16,000).

In December of 2009, the Authority eliminated four positions within the organization, three full-time positions and one part-time position. The severance cost associated with the position eliminations were \$25,000 and was recognized in 2009. Also in December, the Board of Directors appointed an interim President and CEO, who agreed to perform his duties for \$1 and was not provided PERS or medical benefits.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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

The increase in these operating expenses during 2009 is detailed below:

- Professional services decreased by \$41,000 or 2.5% from their 2008 levels. Legal expenses decreased by \$177,000 from the previous year, mainly due to the 2008 transaction in which Myers University was sold to another entity and the bonds originally issued by the Authority were called. Other decreases were attributable to the Port Relocation Project, which is examining the feasibility and conceptual planning for relocating the existing downtown docks to a new location. The new port would be built utilizing dredged material in a Confined Disposal Facility (CDF) constructed by the U.S. Army Corps of Engineers. The project, which underwent \$175,000 worth of further planning in 2009, was \$248,000 less than in 2008. Other decreases came from a reduction in temporary labor (\$35,000), strategic planning services (\$16,000), audit expenses (\$12,000), government relations (\$43,000) and real estate and other services (\$10,000). These decreases were offset by other initiatives that required additional outside assistance. In 2009, the Authority hired a Master Planner to assist in the redevelopment of the existing Authority docks and also contracted with an outside firm to assess the potential market for alternative uses of these facilities. These expenditures totaled nearly \$500,000 and were completed in 2009.
- Facilities lease and maintenance expense decreased by \$160,000 from 2008 levels. The large decrease was due to the Authority scaling back certain expenditures in order to offset a weakened economic environment affecting both the shipping and financing lines of business at the Authority. The Authority did not undertake its annual maintenance paving program, saving \$69,000. Additionally, investments in landscaping and other aesthetic improvements that took place in 2008 did not happen in 2009, saving \$27,000. An additional \$38,000 in savings came from lower utility bills, mainly a product of less usage and less cargo than in 2008. The remainder of the decrease, approximately \$26,000, came from an overall reduction in the 2009 maintenance program.
- Marketing and communication expenses decreased by \$242,000 or 48% in 2009, mainly due to the slowdown in the global economy, which caused the Authority to limit discretionary expenses, most notably marketing and communications expenses. In 2008, the Authority sponsored an event entitled "Port Fest" at a cost of \$140,000; this expense did not occur in 2009. Other decreases came from \$15,000 less expenses on professional communications services, \$32,000 less in print and media advertising, \$11,000 less in travel and business development expenses, as well as a \$44,000 decline in "community support" efforts, such as the Authority's \$20,000 2008 contribution to the Steel Heritage Center at Steelyard Commons.

# Cleveland-Cuyahoga County Port Authority

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- Office expenses increased by \$46,000 in 2009 as a result of the Board of Directors approving a new lease agreement at One Cleveland Center for an additional 4,320 of square feet of space compared with 2008. The additional space was subleased to a third party in 2010, but resulted in an additional \$39,000 in rental expense for 2009. Other increases related to higher phone and data charges as a result of additional employees who were added in the second half of 2008.
- Other expenses increased by \$63,000 to \$271,000 in 2009 as a result of a few factors. The main increase was a \$47,000 loan commitment fee the Authority paid to the State of Ohio for a \$4.7 million loan the Authority was awarded. The remainder of the increase was attributable to board and committee meeting expenses, which increased in frequency in 2009 and were held in a fee-for-service conference center in the building in which the Authority's offices are located.

**Nonoperating Revenues (Expenses):** Net nonoperating revenues remained fairly consistent with 2008. The most significant changes were:

- **Property tax receipts:** The largest portion of nonoperating revenues results from the Authority's .13 mil property tax levy. This amount remained relatively consistent with its 2008 levels as the millage relating to this levy did not change and property values and collection rates remained consistent.
- **Nonoperating grant revenue – State:** In May of 2007, the Authority was awarded a \$5,000,000 grant from the State of Ohio to assist in investments being made for the NASA Plum Brook Space Power Facility in Erie County, Ohio. In 2009, these funds were received by the Authority and disbursed to NASA to reimburse NASA for the costs incurred in developing the technical center.
- **Nonoperating grant revenue – other:** In 2009, the Authority was awarded a \$450,000 grant from the Cleveland Foundation for "transformative investment initiatives." The Authority received \$275,000 in grant funds during 2009 and expended \$227,700 in funds related to these initiatives as of December 31, 2009, with \$47,300 being recorded as deferred revenue. The majority of the \$227,700 in expended funds was used to offset costs associated with planning for residential and recreational uses of the Authority's lakefront land. The expenses associated with the grant are included in professional services.
- **Income from investments:** The \$388,000 decrease in this line item is due to several, mainly macroeconomic issues. The global recession depressed interest rates to historic lows and the Authority earned very little interest on its cash balances. Additionally, investments owned by the Authority with call provisions were all exercised and reinvested at significantly lower interest rates.
- **Interest expense:** The \$15,000 increase in interest expense results from a \$36,000 increase in interest expense from the bonds securing the CBT facility, which are variable-rate demand bonds. Higher interest rates and swap fees were experienced as a result of the financial crisis. The increase was offset by the continued reduction of principal of the Authority's existing, fixed-rate, direct debt obligations.
- **Nonoperating grant disbursements – State:** See note above regarding the \$5,000,000 grant from the State of Ohio.

# Cleveland-Cuyahoga County Port Authority

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2010

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- **Gain on disposal of fixed assets:** In 2009, one of the Authority's warehouses (Warehouse A) was damaged from high winds. Approximately 25% of the roof needed to be replaced and the replacement was covered under the Authority's property insurance. After accounting for the receipt of the insurance proceeds and writing-off a portion of the roof that was replaced, a \$206,000 gain was recognized.
- **Special item:** See Note 18 to the basic financial statements for information relating to the Special Item regarding the anticipated loss of financing from the Myers University project that occurred in 2008 and previous periods.

#### Net Assets

The following chart details the Authority's net assets at December 31, 2010:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total	\$ <u>47,940,480</u>	\$ <u>43,926,515</u>	\$ <u>44,295,229</u>

Total net assets increased by \$4,013,965 (or 9%) in 2010. In 2010, maritime revenues rebounded from 2009 levels due to the economic recovery. Cargo movements showed significant gains over 2009, though still below recent historical levels. Financing fee revenue decreased primarily because of lower fees due to the redemption of bonds on six projects and continued reduction in principal. Additionally, salary and benefit expense was significantly reduced as a result of the Authority eliminating six positions in late 2009 and early 2010, and operating with very limited personnel for a large part of 2010. Further savings resulted from reduced professional services, as a result of the Authority re-evaluating numerous initiatives. Finally, grant revenue increased significantly, as a result of the grant awarded to the Authority in support of the Common Bond Fund program system of reserves.

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

The Authority showed a significant improvement in fiscal results in 2010, as major changes took place across the organization and the economy rebounded. A large portion of the cost savings seen in 2010 are permanent and should produce more predictable financial results in the future. However, even though the global economic recession is officially over, cargo levels for both bulk and break-bulk materials are not expected to improve significantly in 2011 and are still expected to be well below historical norms. Additionally, even with substantial restructuring to tenant leases and operating agreements in 2010, the Authority faces significant pricing pressure from customers, especially those who have agreements which must be renewed annually. Maritime revenues are expected to be consistent with 2010 levels, even with the anticipated sale of the Old River property reducing operating revenues. The Authority found a short-term tenant for Dock 22, and better tenant and cargo attraction efforts will be key to growing the maritime business.

The Authority's Development Finance Operation was stabilized in 2010. The Authority was able to renew a \$9 million letter of credit which supports the Common Bond Fund and received a new investment grade rating from Standard & Poor's after the Fund's rating from Fitch was withdrawn. The expiration of certain federal subsidies that were designed to stimulate the bond market, coupled with a slower economic recovery in Northeast Ohio will make the financing bond a challenge in 2011. Revenues are expected to be in line with 2010 levels. Other revenues, such as Foreign Trade Zone fees, dredge disposal fees and income on investments are expected to decline slightly in 2011, which has been the trend for the past few years. The Authority's property tax revenues continue to provide a stable source of income for the organization and help

# **Cleveland-Cuyahoga County Port Authority**

## **Management's Discussion and Analysis (Unaudited)**

### **For the Year Ended December 31, 2010**

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reduce the volatility experienced in both the maritime and development finance industry. Tax receipts are expected to remain at similar levels. The Authority's .13 mill levy is based on 1999 property values and is more immune to real estate price declines than if it was based on more current valuations.

Expenses, mainly salaries and benefits should see substantial increases over their 2010 levels, but are expected to be well below 2009 levels. The Authority eliminated six positions in late 2009 and early 2010, and also had three senior-level employees voluntarily leave the organization. The Authority operated with very limited personnel for a large part of 2010 until a permanent President and CEO was appointed. The Authority began re-staffing in 2010 and this will continue in 2011, increasing personnel costs. However, even fully staffed, the organization expects to have the fewest number of employees since 2004. Additional operating expenses should be consistent with 2010 levels, although the Authority expects some savings in professional services as new personnel will eliminate some of the need for additional outside services.

The Authority is actively pursuing additional funds from other sources, which has the potential to increase nonoperating revenues, which contributed to the improved financial results for 2010. Additional funds are not budgeted or relied on, but are being aggressively pursued.

In summary, 2011 is expected to be a more stable year, both financially and organizationally. The dramatic fluctuations in operating results should subside in 2011 and the anticipated adoption of a strategic plan should provide clear guidance on the future direction of the Authority.

#### **Contacting the Authority's Finance Department**

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

# Cleveland-Cuyahoga County Port Authority

## Statement of Net Assets

**December 31, 2010 and 2009**

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	<u>2010</u>	<u>2009</u>
Assets:		
Current assets:		
Cash and investments	\$ 11,390,828	\$ 9,239,471
Accounts receivable	477,690	445,482
Interest receivable	29,551	35,449
Prepaid expenses	157,903	166,824
Due from Chancellor University	250,000	2,411,437
Property taxes receivable	<u>3,300,000</u>	<u>3,300,000</u>
Total current assets	<u>15,605,972</u>	<u>15,598,663</u>
Non-current assets:		
Capital assets:		
Construction in progress	21,600	-
Land and land improvements	18,624,127	18,419,075
Buildings, infrastructures, and leasehold improvements	36,017,507	34,589,153
Equipment	<u>810,018</u>	<u>827,897</u>
Total	55,473,252	53,836,125
Less: accumulated depreciation	<u>(15,391,824)</u>	<u>(14,244,221)</u>
Net book value of capital assets	<u>40,081,428</u>	<u>39,591,904</u>
Restricted and other assets:		
Restricted cash and investments	7,161,355	7,658,309
Grant receivable	833,333	-
Deferred outflow of resources	862,049	786,742
Operating lease receivable	356,608	383,199
Debt issuance costs	337,029	371,037
Due from Chancellor University	250,000	-
Other	<u>50,875</u>	<u>65,979</u>
Total restricted and other assets	<u>9,851,249</u>	<u>9,265,266</u>
Total assets	<u>65,538,649</u>	<u>64,455,833</u>

(continued)

# Cleveland-Cuyahoga County Port Authority

## Statement of Net Assets (continued)

**December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 322,613	\$ 224,453
Accrued wages and benefits	129,859	345,284
Deferred income	3,360,173	3,349,594
Current portion of bonds and notes to be repaid by the Authority:		
Cleveland Bulk Terminal Project	145,000	140,000
Port Capital Improvements (1999A Bonds)	275,000	265,000
Essroc (1997A Bonds)	100,000	90,000
State of Ohio 166 Loan	55,499	53,326
Note payable	-	2,250,000
Total current liabilities	<u>4,388,144</u>	<u>6,717,657</u>
Current liabilities payable from restricted assets:		
Accounts payable	711,958	698,725
Accrued interest payable	<u>69,864</u>	<u>74,059</u>
Total current liabilities payable from restricted assets	<u>781,822</u>	<u>772,784</u>
Other liabilities – including amounts relating to restricted assets:		
Accrued rent	244,797	230,298
Deferred income	839,619	970,934
Derivative instrument	862,049	786,742
Long-term bonds and notes, net of current portion:		
Cleveland Bulk Terminal Project	4,835,000	4,980,000
Port Capital Improvements (1999A Bonds)	2,634,065	2,907,782
Essroc (1997A Bonds)	2,821,566	2,916,515
State of Ohio 166 Loan	<u>191,107</u>	<u>246,606</u>
Total other liabilities	<u>12,428,203</u>	<u>13,038,877</u>
Total liabilities	<u>17,598,169</u>	<u>20,529,318</u>
Net assets:		
Invested in capital assets, net of related debt	29,024,191	27,992,675
Restricted for other purposes	7,117,759	6,734,806
Unrestricted	<u>11,798,530</u>	<u>9,199,034</u>
Total net assets	<u>\$ 47,940,480</u>	<u>\$ 43,926,515</u>

See Accompanying Notes to the Basic Financial Statements

# Cleveland-Cuyahoga County Port Authority

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

**For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Wharfage, dockage, and storage	\$ 1,040,031	\$ 471,015
Property lease and rentals	1,678,523	1,707,715
Financing fee income	1,136,479	1,377,519
Foreign trade zone fees	117,500	137,500
Dredge disposal fees	80,381	162,419
Parking revenues	314,397	272,860
Other	<u>103,376</u>	<u>9,831</u>
Total operating revenues	<u>4,470,687</u>	<u>4,138,859</u>
Operating expenses:		
Salaries and benefits	1,840,476	3,321,180
Professional services	1,134,344	1,578,848
Facilities lease and maintenance	958,730	830,962
Marketing and communications	255,498	259,075
Depreciation expense	1,172,153	1,234,451
Office expense	359,984	384,776
Other expense	<u>218,275</u>	<u>271,180</u>
Total operating expenses	<u>5,939,460</u>	<u>7,880,472</u>
Operating loss	<u>(1,468,773)</u>	<u>(3,741,613)</u>
Nonoperating revenues (expenses):		
Property tax receipts	3,251,997	3,286,413
Nonoperating grant revenue – State	-	5,000,000
Nonoperating grant revenue – other	2,560,333	227,700
Income from investments	461,542	465,923
Interest expense	(785,399)	(812,997)
Nonoperating grant disbursements	-	(5,000,000)
(Loss)/gain on disposal of fixed assets	<u>(5,735)</u>	<u>205,860</u>
Total nonoperating revenues (expenses)	<u>5,482,738</u>	<u>3,372,899</u>
Change in net assets	4,013,965	(368,714)
Net assets – beginning of year	<u>43,926,515</u>	<u>44,295,229</u>
Net assets – end of year	\$ <u>47,940,480</u>	\$ <u>43,926,515</u>

See Accompanying Notes to the Basic Financial Statements

# Cleveland-Cuyahoga County Port Authority

## Statement of Cash Flows

### For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating activities:		
Receipts from customers	\$ 4,778,610	\$ 3,956,934
Payments to suppliers for goods and services	(3,112,087)	(3,100,432)
Payments to employees	(1,573,212)	(2,572,422)
Payments of employee benefits	<u>(554,857)</u>	<u>(783,571)</u>
Net cash used in operating activities	<u>(461,546)</u>	<u>(2,499,491)</u>
Noncapital financing activities:		
Net proceeds from property tax collections	3,251,997	3,286,413
Cash received from sale of Myers University (*)	161,437	118,194
Grant money received	<u>1,702,699</u>	<u>275,000</u>
Net cash provided by noncapital financing activities	<u>5,116,133</u>	<u>3,679,607</u>
Capital and related financing activities:		
Cash received from Chancellor transaction (*)	250,000	-
Proceeds received from insurance recovery	-	266,866
Principal paid on debt	(2,798,326)	(531,238)
Interest paid on debt	(748,845)	(771,818)
Acquisition and construction of capital assets	<u>(167,412)</u>	<u>(294,570)</u>
Net cash used in capital and related financing activities	<u>(3,464,583)</u>	<u>(1,330,760)</u>
Investing activities:		
Purchase of investment securities	(28,763,251)	(18,594,299)
Proceeds from sale and maturity of investment securities	31,255,331	19,483,330
Interest on investments	<u>474,119</u>	<u>500,524</u>
Net cash provided by investing activities	<u>2,966,199</u>	<u>1,389,555</u>
Net increase in cash and cash equivalents	4,156,203	1,238,911
Cash and cash equivalents – beginning of year	<u>7,594,524</u>	<u>6,355,613</u>
Cash and cash equivalents – end of year	\$ <u>11,750,727</u>	\$ <u>7,594,524</u>

(continued)

\* Relates to Myers University and Chancellor University transactions, see Notes 18 and 19.

# Cleveland-Cuyahoga County Port Authority

## Statement of Cash Flows (continued)

### For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,468,773)	\$ (3,741,613)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,172,153	1,234,451
Changes in assets and liabilities:		
Accounts receivable	(32,208)	(168,378)
Operating lease receivables	26,591	45,742
Prepaid expenses and other assets	26,660	18,825
Accounts payable	98,160	(27,029)
Deferred income and other	(96,436)	(225,083)
Accrued wages and benefits	(215,425)	34,500
Other liabilities	<u>27,732</u>	<u>329,094</u>
Net cash used in operating activities	\$ <u><u>(461,546)</u></u>	\$ <u><u>(2,499,491)</u></u>
Reconciliation cash and investments reported on the Statement of Net Assets to cash and cash equivalents reported on the Statement of Cash Flows:		
Statement of Net Assets cash and investment amounts:		
Included in current assets	\$ 11,390,828	\$ 9,239,471
Included in restricted and other assets	<u>7,161,355</u>	<u>7,658,309</u>
Total	18,552,183	16,897,780
Investments included in the balances above that are not cash equivalents	<u>(6,801,456)</u>	<u>(9,303,256)</u>
Cash and cash equivalents reported in the Statement of Cash Flows	\$ <u><u>11,750,727</u></u>	\$ <u><u>7,594,524</u></u>
Supplemental schedule of non-cash investing, capital and related financing activities:		
Amortization of loss on defeasance and discounts on debt issues classified as interest expense	\$ <u><u>(6,334)</u></u>	\$ <u><u>(6,577)</u></u>
Amortization of bond issuance costs on debt issues classified as interest expense	\$ <u><u>(34,008)</u></u>	\$ <u><u>(35,387)</u></u>
Acquisition of Chancellor building and land due to debt forgiveness (see Note 19)	\$ <u><u>(1,500,000)</u></u>	\$ <u><u>-</u></u>

See Accompanying Notes to the Basic Financial Statements

# Cleveland-Cuyahoga County Port Authority

## Statement of Fiduciary Net Assets Fiduciary Funds (in thousands)

**December 31, 2010 and 2009**

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	<u>2010</u>	<u>2009</u>
Assets:		
Cash and cash equivalents	\$ 118,364	\$ 136,728
Notes and loans receivable	587,130	500,576
Financing lease receivable	42,024	20,825
Capital assets, net of accumulated depreciation	<u>190,586</u>	<u>131,573</u>
Total assets	\$ <u><u>938,104</u></u>	\$ <u><u>789,702</u></u>
Liabilities:		
Revenue bonds and notes payable	\$ <u><u>938,104</u></u>	\$ <u><u>789,702</u></u>

See Accompanying Notes to the Basic Financial Statements

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements

**December 31, 2010 and 2009**

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### **Note 1: Summary of Significant Accounting Policies**

**Reporting Entity** – The Cleveland-Cuyahoga County Port Authority (the “Authority”) is a body corporate and politic established pursuant to Chapter 4582 of the Ohio Revised Code to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio, including Ohio Revised Code Sections 4582.01 through 4582.20. As authorized by Ohio Revised Code section 4852.02, the City of Cleveland and Cuyahoga County, Ohio created the Authority in 1968.

The Authority’s authorized purposes include the following: (1) activities that enhance, foster, aid, provide or promote transportation, economic development, housing, recreation, education, government operations, culture, or research within the jurisdiction of the Authority, and (2) activities authorized by Section 13 and 16 of Article VIII of the Ohio Constitution. The Authority is given broad powers pursuant to Ohio Revised Code Sections 4582.01 through 4582.20 to undertake activities to carry out the authorized purposes as defined above.

The Board of Directors (the “Board”) is the governing body of the Authority. The Board consists of nine members each of whom shall serve for a term of four years, of which six are appointed by the Mayor of the City of Cleveland, with advice and consent of the Cleveland City Council and three are appointed by the County Executive, subject to confirmation by the Cuyahoga County Council. A new form of government was adopted January 1, 2011 for Cuyahoga County, replacing a three member Board of County Commissioners, which previously appointed members to the Board.

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 has no component units.

**Basis of Accounting** – The accompanying financial statements of the Authority 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 Governmental Accounting Standards Board (“GASB”). The statements were prepared using the economic resources measurement focus and the accrual basis of accounting. The Authority’s enterprise fund financial statements as well as the fiduciary fund financial statement are prepared using the accrual basis of accounting.

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred. Revenues received in advance are deferred and recognized as earned over the period to which they relate. The Authority’s activities are financed and operated as an enterprise fund such that the costs and expenses, including depreciation, of providing the services are recovered primarily through user charges and property taxes.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### Note 1: Summary of Significant Accounting Policies (continued)

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

**Basis of Presentation** – The Authority’s basic financial statements consist of a statement of net assets, statement of revenue, expenses and changes in net assets, statement of cash flows, and statement of fiduciary net assets. The Authority uses a single enterprise fund and a fiduciary fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users.

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: Pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the entity under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the entity’s own programs. The Authority’s fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Authority’s only fiduciary fund is used to account for conduit debt financing as an agent for other governments, not-for-profits or companies.

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

**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.

All financings classified as Conduit Debt are reflected in the Authority’s Statement of Fiduciary Net Assets.

**Cash Equivalents and Investments** – For the purposes of the statement of net assets and cash flows, the Authority considers cash and cash equivalent to consist of all bank deposits, money market funds and other short-term, liquid investments that are readily convertible to cash and have a maturity of less than 30 days.

The Authority’s investments (including cash equivalents) are recorded at fair value.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### Note 1: Summary of Significant Accounting Policies (continued)

**Capital Assets and Depreciation** – The Authority capitalizes and records capital 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 each fixed asset over its estimated useful life on the straight-line basis. Assets that are capitalized must be tangible in nature, have a useful life in excess of two years, and have a cost equal to or exceeding \$3,000. The general ranges of estimated useful lives by type of capital asset are as follows:

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

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

**Interest Cost** – Interest cost incurred by the Authority in connection with a construction project that 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. 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 that 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 have been levied for the Authority during the year but will not be received and available for appropriation by the Authority until the succeeding year.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 1: Summary of Significant Accounting Policies (continued)**

**Net Assets** – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws and regulations of their governments. The Authority reports restricted net assets for other purposes, none of which is restricted by enabling legislation. The Authority applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

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

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

**Operating Lease Income** – For operating leases that 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 statement of net assets.

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

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

**Extraordinary and Special Items** – Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither occurred in 2009 and 2010.

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

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### Note 1: Summary of Significant Accounting Policies (continued)

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

**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 expenditures to exceed total appropriations without amendment of appropriations by the Board of Directors. The Board is given quarterly updates on the financial performance of the Authority throughout the fiscal year.

**New Accounting Standards** – During 2010, the Authority implemented GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments. This statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The impact of this standard, as it applies to the Authority, is related to the interest rate swap the Authority has entered into with a counterparty. See Note 2 for further information.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the U.S. Bankruptcy Code. The requirements in this statement provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change to the financial statements.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### **Note 1: Summary of Significant Accounting Policies (continued)**

**Comparative Data/Reclassifications** – Prior year data presented in Management’s Discussion and Analysis has been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2009 financial statements in order to conform to the 2010 presentation.

**Subsequent Events** – In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through June 20, 2011, the date the financial statements were available to be issued.

#### **Note 2: Restatement of Net Assets**

GASB 53 requires all derivative instruments within its scope to be reported at fair value in the statement of net assets. For hedging derivative instruments that are effective in significantly reducing an identified financial risk, as defined by the Statement, the corresponding change in fair value is deferred and included in the Statement of Net Assets. The implementation of GASB 53 had the following effect on net assets at December 31, 2009:

	<u>As Previously Reported</u>	<u>Implementation of GASB Statement No. 53</u>	<u>As Adjusted</u>
December 31, 2009:			
Noncurrent assets:			
Deferred outflow of resources	\$ -	\$ 786,742	\$ 786,742
Noncurrent liabilities:			
Derivative instrument	-	(786,742)	(786,742)
Net assets	43,926,515	43,926,515	43,926,515
January 1, 2008:			
Net assets	44,295,229	44,295,229	44,295,229

#### **Note 3: Deposits and Investments**

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

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 3: Deposits and Investments (continued)**

**Custodial Credit Risk** – Custodial credit risk is the risk that, in the event of a bank failure, the Authority’s deposits might not be recovered. The Authority has no deposit policy for custodial risk beyond the requirements of state statute. At December 31, 2010 the carrying amounts of the Authority’s deposits were \$9,920,573 and the related bank balances were \$10,162,424, of which \$252,748 was covered by federal depository insurance and \$9,909,676 was uninsured and collateralized with securities held by the pledging institutions trust department, not in the Authority’s name. At December 31, 2009 the carrying amounts of the Authority’s deposits were \$7,411,808 and the related bank balances were \$7,460,795 of which all was covered by federal depository insurance.

**Investments** – The Authority’s investment policies are governed by state statutes that 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 and commercial paper. Repurchase transactions must be purchased from financial institutions as discussed in “Deposits” above or from any eligible dealer who is a member of the National Association of Securities Dealers. Repurchase transactions are not to exceed a period of 30 days and must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of, or guaranteed by, the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Authority’s name.

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

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority’s investment policies limit its investment portfolio to maturities of five years or less, which is in accordance with Ohio law. All of the Authority’s investments at December 31, 2010 and 2009 have effective maturity dates of less than five years.

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

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

#### Note 3: Deposits and Investments (continued)

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Authority’s investment policies provide that investments be diversified to reduce the risk of loss from over-concentration in a single issuer, specifying that no more than 50% of the Authority’s total investment portfolio will be invested in a single security type, with the exception of obligations of the U.S. Treasury and STAROhio. Approximately \$4.4 million of the Authority’s total investment balance is invested in a Guaranteed Investment Contract (GIC) until 2027. The GIC provider guarantees a rate of return and has the option of purchasing securities to meet that obligation, so long as they are listed as an “Eligible Investment” in the Trust Indenture. The Authority applies the 50% test to its existing investment portfolio that is maintained outside of the Trust Indenture.

The following table presents fair value, length of maturity and the credit ratings of the Authority’s investments at December 31, 2010:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Less than 1 year</u>	<u>1 to 5 Years</u>	<u>Percentage of Investments</u>
Money market fund	\$ 1,830,154	AAA	\$ 1,830,154	\$ -	21.20%
Federal Home Loan Bank obligations	677,049	AAA	-	677,049	7.84
Federal National Mortgage Association obligations	744,577	AAA	-	744,577	8.63
Guaranteed Investment Contract	4,365,519	N/A	-	4,365,519	50.58
Federal Farm Credit Bank obligations	<u>1,014,311</u>	AAA	<u>-</u>	<u>1,014,311</u>	<u>11.75</u>
Total	\$ <u>8,631,610</u>		\$ <u>1,830,154</u>	\$ <u>6,801,456</u>	<u>100%</u>

Deposits and investments at December 31, 2010 and 2009 relating to the conduit debt were held by trustees and other third parties and were approximately \$118,364,000 and \$136,728,000, respectively.

The following table presents fair value, length of maturity and the credit ratings of the Authority’s investments at December 31, 2009:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Less than 1 year</u>	<u>1 to 5 Years</u>	<u>Percentage of Investments</u>
Money market fund	\$ 182,716	AAA	\$ 182,716	\$ -	1.93%
Federal Home Loan Bank obligations	1,825,284	AAA	901,502	923,782	19.24
Federal Home Loan Mortgage Corporation obligations	1,107,472	AAA	-	1,107,472	11.67
Federal National Mortgage Association obligations	1,705,153	AAA	-	1,705,153	17.98
Guaranteed Investment Contract	4,364,597	N/A	-	4,364,597	46.01
Federal Farm Credit Bank obligations	<u>300,750</u>	AAA	<u>-</u>	<u>300,750</u>	<u>3.17</u>
Total	\$ <u>9,485,972</u>		\$ <u>1,084,218</u>	\$ <u>8,401,754</u>	<u>100%</u>

Deposits and investments at December 31, 2009 and 2008 relating to the conduit debt were held by trustees and other third parties were approximately \$136,728,000 and \$66,861,000, respectively.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

#### Note 4: Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance at January 1, 2010	Additions	Deletions	Balance at December 31, 2010
Capital assets not being depreciated:				
Land and land improvements	\$ 18,419,075	\$ 205,052	\$ -	\$ 18,624,127
Construction in progress	-	21,600	-	21,600
Total capital assets not being depreciated	<u>18,419,075</u>	<u>226,652</u>	<u>-</u>	<u>18,645,727</u>
Capital assets being depreciated:				
Buildings, infrastructures, and leasehold improvements	34,589,153	1,436,599	(8,245)	36,017,507
Equipment	827,897	4,161	(22,040)	810,018
Total capital assets being depreciated	<u>35,417,050</u>	<u>1,440,760</u>	<u>(30,285)</u>	<u>36,827,525</u>
Less accumulated depreciation:				
Buildings, infrastructures, and leasehold improvements	13,616,320	1,066,782	(24,550)	14,658,552
Equipment	627,901	105,371	-	733,272
Total accumulated depreciation	<u>14,244,221</u>	<u>1,172,153</u>	<u>(24,550)</u>	<u>15,391,824</u>
Total capital assets being depreciated, net	<u>21,172,829</u>	<u>268,607</u>	<u>(5,735)</u>	<u>21,435,701</u>
Capital assets, net	<u>\$ 39,591,904</u>	<u>\$ 495,259</u>	<u>\$ (5,735)</u>	<u>\$ 40,081,428</u>

In August of 2010, the Board of Directors authorized and approved an agreement for the sale of five acres of Authority property, commonly referred to as the Old River Property, to a third party. As of December 31, 2010, transfer of title to the third party had yet to take place and therefore, the acquisition cost of the property of \$654,893 and associated improvements of \$452,717 remain included in the Authority's capital asset balances. Gross proceeds from the sale, which took place in May of 2011, were \$841,907 (see "Subsequent Events" footnote).

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance at January 1, 2009	Additions	Deletions	Balance at December 31, 2009
Capital assets not being depreciated:				
Land and land improvements	\$ 18,419,075	-	-	\$ 18,419,075
Capital assets being depreciated:				
Buildings, infrastructures, and leasehold improvements	34,396,256	294,570	(101,673)	34,589,153
Equipment	827,897	-	-	827,897
Total capital assets being depreciated	<u>35,224,153</u>	<u>294,570</u>	<u>(101,673)</u>	<u>35,417,050</u>
Less accumulated depreciation:				
Buildings, infrastructures, and leasehold improvements	12,509,948	1,147,041	(40,669)	13,616,320
Equipment	540,491	87,410	-	627,901
Total accumulated depreciation	<u>13,050,439</u>	<u>1,234,451</u>	<u>(40,669)</u>	<u>14,244,221</u>
Total capital assets being depreciated, net	<u>22,173,714</u>	<u>(939,881)</u>	<u>(61,004)</u>	<u>21,172,829</u>
Capital assets, net	<u>\$ 40,592,789</u>	<u>\$ (939,881)</u>	<u>\$ (61,004)</u>	<u>\$ 39,591,904</u>

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 4: Capital Assets (continued)**

In February of 2009, the Authority incurred severe wind damage to the roof of Warehouse A, owned by the Authority. The cost to replace the damaged portion of the roof (approximately 25% of the entire roof) and the associated clean-up was \$277,000, nearly all of which was covered by insurance. The difference between the proceeds received from the insurer and the previous cost basis of the roof resulted in a gain of approximately \$206,000. The new portion of the roof is being amortized over a 25-year period, which matches the remaining life of the existing roof.

### **Note 5: Retirement and Post-employment Benefit Plans**

**Pension Benefits** – The Authority participates in the Ohio Public Employees Retirement System (“OPERS”). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is 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 the member and (vested) employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension 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 Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans. For the year ended December 31, 2010, the members of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The Authority contributed 14.0 percent of covered payroll.

The Authority’s required contributions for pension obligations to the Traditional Pension, Combined and Member Directed Plans (excluding the amount relating to postretirement benefits) for the years ended December 31, 2010, 2009, and 2008 were \$119,906, \$180,404, and \$134,235, respectively, equal to the required contributions for each year. The full amount has been contributed for all three years and includes contributions for a single employee who is paid for by the CAM participants at NCH, but is considered a public employee.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 5: Retirement and Post-employment Benefit Plans (continued)**

*Post-employment Benefits* – The Ohio Public Employees Retirement System (“OPERS”) administers three separate pension plans: the Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan– a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town St., Columbus, OH, 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health-care through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health-care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, the Authority contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS’ Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health-care benefits provided, by retirees or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Authority’s contributions for health care to the Traditional and Combined Plans for the years ended December 31, 2010, 2009, and 2008 were \$68,544, \$130,446, and \$134,235, respectively.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 5: Retirement and Post-employment Benefit Plans (continued)**

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health-care plan.

### **Note 6: 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 and public utility property located in Cuyahoga County. The 2009 levy (collected in 2010) was based upon an assessed valuation of approximately \$29.6 billion. The 2008 levy (collected in 2009) was based upon an assessed valuation of approximately \$31.9 billion. In November of 2007, the voters of Cuyahoga County approved a renewal of the Authority's .13 mill property tax levy. The levy is effective commencing in 2008 and first due for collection in calendar year 2009, continuing for 5 years through 2012 for collection in calendar year 2013.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the Authority. Taxes are payable to the County in two equal installments in January and July and, if not paid, become delinquent after December 31. The County Auditor periodically remits to the Authority its portion of the taxes collected with final settlement in June and December for taxes payable in the first and second halves of the year, respectively.

### **Note 7: 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 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 statement of net assets, as well as a corresponding liability. The balance in the accounts related to the CAM totaled \$65,957 at December 31, 2010.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### Note 7: North Coast Harbor (continued)

Additionally, in 2005, the Authority entered into a Cooperative Agreement with the City of Cleveland to allow certain revenues generated from City-owned parking lots to go towards certain expenditures for the benefit of North Coast Harbor. These expenditures were to be primarily used for holding special events at North Coast Harbor and for capital repairs. The Cooperative Agreement removed the liability of capital repairs from the CAM participants and was assumed by the City. The funds relating to the Cooperative Agreement are held by the Authority and paid upon written request from the City of Cleveland. Balances in these accounts are classified as restricted assets in the accompanying statement of net assets, as well as a corresponding liability and totaled \$617,888 as of December 31, 2010.

In 2009 and 2010, revenues and expenses had no effect on the Authority's income statement, other than a small administrative fee.

#### Note 8: Long-Term Obligations

Changes in the Authority's long-term obligations for the year ended December 31, 2010 are as follows:

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010	Due Within One Year
State of Ohio 166 Loan	\$ 299,932	\$ -	\$ (53,326)	\$ 246,606	\$ 55,499
Cleveland Bulk Terminal Project	5,120,000	-	(140,000)	4,980,000	145,000
Essroc (1997A)	3,006,515	5,051	(90,000)	2,921,566	100,000
Port Improvements (1999A)	3,172,782	1,283	(265,000)	2,909,065	275,000
Note payable	<u>2,250,000</u>	<u>-</u>	<u>(2,250,000)</u>	<u>-</u>	<u>-</u>
Total	\$ <u>13,849,229</u>	\$ <u>6,334</u>	\$ <u>(2,798,326)</u>	\$ <u>11,057,237</u>	\$ <u>575,499</u>

Changes in the Authority's long-term obligations for the year ended December 31, 2009 are as follows:

	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009	Due Within One Year
State of Ohio 166 Loan	\$ 351,170	\$ -	\$ (51,238)	\$ 299,932	\$ 53,326
Cleveland Bulk Terminal Project	5,260,000	-	(140,000)	5,120,000	140,000
Essroc (1997A)	3,091,321	5,194	(90,000)	3,006,515	90,000
Port Improvements (1999A)	3,421,399	1,383	(250,000)	3,172,782	265,000
Note payable	<u>2,250,000</u>	<u>-</u>	<u>-</u>	<u>2,250,000</u>	<u>2,250,000</u>
Total	\$ <u>14,373,890</u>	\$ <u>6,577</u>	\$ <u>(531,238)</u>	\$ <u>13,849,229</u>	\$ <u>2,798,326</u>

See Notes 9, 10, 11, 12 and 13 for additional information on the Port Improvements (1999A), State of Ohio 166 Loan, Cleveland Bulk Terminal, Essroc Project (1997A), and the Note Payable, respectively.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### Note 9: Port Improvements (1999A)

In 1999, the Authority issued \$5,230,000 in Development Revenue Bonds through the Authority's Bond Fund Program. The bonds were issued tax-exempt, mature on May 15, 2019 and bear interest at a rate of 5.375% per annum. The proceeds were used to: (a) finance a portion of the 1998 acquisition of 15 acres of land on the Old River (\$1.5 million); (b) finance a portion of the 2000 improvements to Dock 22 (\$1.5 million); (c) finance \$945,000 of maritime maintenance and repair projects, including \$634,000 for the 2001 rehabilitation of the Authority's heavy lift crane; and (d) finance a part of the Authority's portion of the construction costs of a new port entrance under West Third Street, providing direct access onto and off of State Route 2 (\$1.3 million) ("Port Entrance Project"). Construction on the new \$7.2 million Port Entrance Project began in January 2002 and was completed in 2003. A portion of the costs of the Port Entrance Project (\$4.8 million) were funded by federal and state grants. The portion of the costs of the project that relate to improvements being made on property that is not owned by the Authority and for which the Authority is not responsible for ongoing maintenance were expensed as incurred.

The bonds outstanding at December 31, 2010 are payable as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 275,000	\$ 153,053	\$ 428,053
2012	295,000	138,003	433,003
2013	310,000	121,878	431,878
2014	325,000	105,081	430,081
2015	345,000	105,081	450,081
2016 – 2019	<u>1,365,000</u>	<u>150,500</u>	<u>1,515,500</u>
Total payments	2,915,000	\$ <u>773,596</u>	\$ <u>3,688,596</u>
Unamortized original issue discount	<u>(5,935)</u>		
Total	\$ <u>2,909,065</u>		

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

### Note 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, commonly referred to as the Old River Property. Approximately five acres were subsequently leased to a private business under an operating lease.

The Authority entered into a Memorandum of Understanding ("MOU") with the City of Cleveland in 2003 to address numerous issues including the Authority's lease of the properties on the east side of the Cuyahoga River from the City (See Note 14) and the 10 acre vacant parcel of land on the Old River channel. The MOU outlined that the vacant 10 acre parcel be conveyed to the City of Cleveland once the lease of certain City-owned docks was extended for an additional 15 years. The conveyance and extension took place in 2005.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### Note 10: State of Ohio 166 Loan (continued)

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 five acre lease and is payable from the operating funds of the Authority.

The loan outstanding at December 31, 2010 is payable as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 55,499	\$ 8,854	\$ 64,353
2012	57,760	6,593	64,353
2013	60,113	4,240	64,353
2014	62,562	1,791	64,353
2015	<u>10,672</u>	<u>53</u>	<u>10,725</u>
Total payments	\$ <u>246,606</u>	\$ <u>21,531</u>	\$ <u>268,137</u>

In August of 2010, the Authority agreed to sell the remaining five acres that were under lease to a third party. Gross proceeds from the sale, which took place in 2011, were \$841,907, and were used to retire the principal outstanding on the State of Ohio 166 loan. See "Subsequent Events" footnote for additional information.

A Second Amended and Restated Lease was executed in March of 2006. The future base rental payments required under the Lease are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 87,815
2012	90,449
2013	93,163
2014	95,958
2015	98,837
2016 – 2020	540,478
2021 – 2025	417,559
2026 – 2030	227,551
2031 – 2035	<u>244,784</u>
Total	\$ <u>1,896,594</u>

The Authority recorded \$72,160 of rental income (on a straight-line basis) under the Lease for the years ended December 31, 2010 and 2009.

The Authority will not receive any additional rental income beyond 2011 due to the sale of the property to a third party. See "Subsequent Events" footnote for additional information.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 11: 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, to advance refund the bonds that were issued to acquire the facility.

On March 1, 2007, the Authority issued \$5,470,000 in Multi-Mode Variable Rate Refunding Revenue Bonds, Series 2007 (“Refunding Bonds”) in connection with the Cleveland Bulk Terminal (CBT) project. The proceeds of the bonds were used to refund the Authority’s Taxable Variable Rate Refunding Bonds, Series 2001. The Series 2007 Bonds are tax-exempt, whereas the 2001 Bonds were taxable, as those proceeds were to defease bonds issued in 1997 used to acquire the Cleveland Bulk Terminal. The Bonds are secured by an irrevocable direct pay letter of credit, which expires on March 1, 2012, with a local financial institution. No gain or loss was recognized as the \$5,470,000 tax-exempt bonds equaled the amount outstanding on the Series 2001 Refunding Bonds at the time of issuance.

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 March 1, 2012, provides assurance that funds will be available through the financial institution to redeem any non-marketable bonds prior to their maturity.

The Authority receives rental payments from its tenant and operator under the Lease and Operating Agreement (“Lease”) of the Cleveland Bulk Terminals, which helps pay a portion of the principal and interest due on the Refunding Bonds. The original Lease was entered into in March of 1997 and was extended through 2017 in December of 2002. The Lease is between Oglebay Norton Terminals, Inc. and the Authority. In addition, an Operating Agreement was entered into with Oglebay Norton Terminals, Inc. on December 16, 2002 with respect to an ore handling facility utilized in the handling of bulk materials on that site.

In addition, Oglebay Norton Company (“ONC”), the parent company of Oglebay Norton Terminals, Inc., entered into a Guaranty Agreement to guarantee the base rent under the Lease which was extended on December 16, 2002. Under the Guaranty Agreement, ONC guaranteed the payments of what was defined as Base Rent and Additional Rent under the Lease. The Lease also defines Additional Rent, which is a charge per inbound ton that is handled at the facility.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

#### Note 11: Cleveland Bulk Terminal (continued)

In November of 2007, the shareholders' of Oglebay Norton Company approved the company's acquisition by Carmeuse North America, a subsidiary of Europe's Carmeuse Group. The Guaranty Agreement mentioned above was assumed by Carmeuse North America as part of the transaction.

In March of 2010, the Authority amended the existing Lease to change the definition of Additional Rent. Previously, inbound tonnage was the basis under which the company was billed for Additional Rent, which was changed to outbound tonnage, effective April 3, 2010. Except for a temporary impact in 2010, this Lease amendment is not expected to have a material impact on the Authority's operating revenues.

**Interest Rate Swap** – 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 rates on the Refunding Bonds were 2.23% and 2.17%, respectively on December 31, 2010 and December 31, 2009. Interest rate exchange agreements (“swaps”) are used to limit the Authority's interest rate exposure on the Refunding Bonds. The swaps provide for interest to be received based on notional amounts at variable rates and for interest to be paid on the same notional amounts at fixed rates. The fixed interest rates do not change over the life of the agreements, one of which expired in fiscal 2007 and the other remains in place until 2017.

The objectives and terms of the Authority's hedging derivative outstanding at the end of the period are summarized below:

Type	Objective	(000's)	Date	Date	Terms
Pay-fixed Interest Rate Swap	Hedge interest rate risk on Multi-Mode Variable Rate Demand Bonds, Series 2007	\$ 4,955	6/5/01	3/2/17	Pay 4.83% Receive 67% of 1-month LIBOR

The variable rates are reset every quarter, are based on LIBOR, and are settled with the counterparties to the swaps at that time. These swap agreements are not used for trading purposes and effectively change the base interest rate exposure on the Refunding Bonds to a fixed rate of 5.81%, through March 1, 2007 and a fixed rate of 4.83% thereafter through March 2, 2017.

**Fair Value** – The fair value of the interest rate swap was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

	Changes in Fair Value		Fair Value at December 31, 2010		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedge: Pay-fixed interest rate swap	Deferred outflow	\$ (75,307)	Debt	\$ (862,049)	\$ 4,955,000

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### Note 11: Cleveland Bulk Terminal (continued)

The interest rate swap is subject to the following risks:

**Interest Rate Risk** – The Authority is exposed to interest rate risk. On the pay-fixed, receive-variable cash flow hedge that is hedging interest rates on a Multi-Mode Variable Rate Refunding Revenue Bonds, Series 2007, as LIBOR decreases, the Authority's net payment on the swap increases.

**Credit Risk** – The Authority is exposed to credit risk in the amount of the derivative's fair value. When the fair value of any swap has a positive market value, then the Authority is exposed to the actual risk that the counterparty will not fulfill its obligations. As of December 31, 2010, the Authority had no net exposure to actual credit risk on its hedging derivative as the swap is a liability to the Authority. The counterparty under the swap is Key Bank, NA. As of December 31, 2010, the counterparty had ratings of A3/A-/A- from Moody's, Standard & Poor's and Fitch, respectively. To mitigate the potential for credit risk, if the counterparty's credit quality falls below BBB- as issued by Fitch Ratings or Standard & Poor's or Baa3 as issued by Moody's, it will collateralize the swap liability to the Authority with securities, consisting of obligations of the US government, mortgage participation certificates of the FHMC or the FNMA, or such other securities as the parties mutually agree to. Collateral would be deposited with a third-party custodian.

**Basis Risk** – The Authority is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the hedged item. At December 31, 2010, the variable rates on the hedge item and the derivative were not equal, thereby causing basis risk to be realized by the Authority. Because the hedge item rates are set in a tax-exempt market and the receipts on hedge are calculated based on a percentage of a taxable rate, it is expected that basis risk will continue throughout the term of the derivative.

**Termination Risk** – The derivative contract used the International Swap Dealers Association Master Agreement ("Master Agreement"), which includes standard termination events, such as failure to pay and bankruptcy. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap were terminated, the variable rate bond would no longer carry a synthetic interest rate. In addition, if at the time of the termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

**Rollover Risk** – The Authority is exposed to rollover risk on any swap that matures or may be terminated prior to the maturity of the hedged item. The hedged item is currently structured to mature in 2031 and the swap is scheduled to mature in 2017, thereby subjecting the Authority to rollover risk should the Authority decide that it wishes to hedge its interest rate exposure at that time.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### Note 11: Cleveland Bulk Terminal (continued)

The bonds outstanding at December 31, 2010, 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):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 145,000	\$ 236,862	\$ 381,862
2012	155,000	234,468	389,468
2013	160,000	222,535	382,535
2014	170,000	214,768	384,768
2015	180,000	205,858	385,858
2016 – 2020	1,020,000	895,216	1,915,216
2021 – 2025	1,300,000	618,021	1,918,021
2026 – 2030	1,660,000	264,152	1,924,152
2031	<u>190,000</u>	<u>3,382</u>	<u>193,382</u>
Total payments	\$ <u>4,980,000</u>	\$ <u>2,895,262</u>	\$ <u>7,875,262</u>

The Lease 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:

<u>Year</u>	<u>Amount</u>
2011	\$ 282,783
2012	282,783
2013	282,783
2014	282,783
2015	282,783
2016 – 2017	<u>343,597</u>
Total	\$ <u>1,757,512</u>

The Authority recorded \$378,782 of rental income (on a straight-line basis) under the Lease for the years ended December 31, 2010 and 2009. In addition, the cost and carrying amount of the Authority's property subject to this Lease was \$13.8 million and \$11.9 million, respectively at December 31, 2010.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### **Note 12: Essroc Project (1997A Bonds)**

In 1997, the Authority issued \$3,975,000 of Development Revenue Bonds through the Authority's Bond Fund Program. The bonds were issued tax-exempt, mature on May 15, 2027 and bear interest at 5.75% and 5.80% annually. Proceeds from the bonds were used for the purpose of improving Dock 20 by providing bulkheading and various transportation improvements to be used in the operation of the Port of Cleveland.

Debt service under the bonds is being paid primarily from the rental payments made to the Bond Fund trustee by Essroc Cement Corp. ("Essroc") in connection with a Ground Lease and Operating Agreement ("Lease"), pursuant to which Essroc leases 6.5 acres of certain real property and bulkheading located on Dock 20 from the Authority. Rental payments are broken into two components: 1) a Land Rental, which was \$106,800 at the inception of the lease and is subject to an annual CPI increase and 2) an Improvement Rental, which equals the annual debt service on the 1997A bonds, plus a small administrative charge. The Lease also contains a provision for wharfage and dockage fees, if tonnage exceeds 100,000 tons in a given Lease year.

The bonds outstanding at December 31, 2010 are payable as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 100,000	\$ 170,515	\$ 270,515
2012	100,000	164,765	264,765
2013	110,000	158,871	268,871
2014	115,000	152,546	267,546
2015	120,000	145,790	265,790
2016 – 2020	735,000	613,088	1,348,088
2021 – 2025	965,000	372,505	1,337,505
2026 – 2027	<u>730,000</u>	<u>53,505</u>	<u>783,505</u>
Total payments	2,975,000	\$ <u>1,831,585</u>	\$ <u>4,806,585</u>
Unamortized original issue discount	<u>(53,434)</u>		
Total	\$ <u>2,921,566</u>		

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

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

The property at Dock 20 had a cost and carrying amount of \$3.5 million and \$2.2 million, respectively, at December 31, 2010. Essroc has also agreed in the Ground Lease and Operating Agreement to pay the Authority certain land rentals, improvement rentals (relating to the original improvement of the property), and dockage and wharfage fees. The future minimum rental payments to be received under the Ground Lease and Operating Agreement, which is accounted for as an operating lease, are as follows (assuming no annual CPI increase):

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### **Note 12: Essroc Project (1997A Bonds) (continued)**

<u>Year</u>	<u>Amount</u>
2011	\$ 403,612
2012	398,396
2013	401,311
2014	400,464
2015	398,330
2016 – 2020	2,003,224
2021 – 2025	1,980,624
2026 – 2027	<u>640,409</u>
Total	\$ <u>6,626,370</u>

The Authority recorded \$263,509 of rental income (on a straight-line basis) under the Improvement Rental per the Ground Lease and Operating Agreement for the years ended December 31, 2010 and 2009. The Authority recognized additional rental income attributable to the Land Rental portion of the Ground Lease and Operating Agreement of \$136,771 for the years December 31, 2010 and 2009, respectively.

In 2011, the Authority amended the Ground Lease and Operating Agreement with Essroc which will impact future Land Rental payments. See “Subsequent Events” footnote for additional information.

#### **Note 13: Note Payable**

In 2008, the Authority issued a \$2,250,000 promissory note, which matured on September 10, 2010. The proceeds from the loan were used to pay off a portion of Myers outstanding 2004E bonds in the Authority’s Common Bond Fund program. Interest on the outstanding principal amount of the note is calculated on the 3-month LIBOR rate, plus an applicable margin (0.60% per annum). The note was paid in full and is no longer outstanding.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### Note 14: 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 first 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, along with a development plan for the docks to be removed and approved by City Council and the City. The removal is further conditioned upon “the Port’s financial ability to vacate the docks and secure suitable alternatives,” which the City agrees to cooperate to achieve. In August of 2005, the Authority transferred certain undeveloped property it owned on the Old River in return for the City’s entering into a Second Amendment of Lease by which the lease term of Docks 24 and 26 and a portion of Dock 28 (known as 28A), also owned by the City, and were extended to 2043. 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. Also, the Lease Term for the remainder of Dock 28 and Dock 30 was extended to December 31, 2028 subject to the five year call provision discussed above. The maximum reduction in the annual lease payments would aggregate \$150,000 if both of these docks were returned to the City. Rental expense under the operating lease with the City was \$400,000 for the years ended December 31, 2010 and 2009.

The Authority has leased office space at One Cleveland Center since January 2000. In January of 2009, the Board of Directors of the Authority authorized the extension of a lease with Optima One Cleveland Center. The lease extension expanded the space leased by the Authority by 4,320 to a total of 15,047 square feet. The term of the lease was extended an additional five years until January 31, 2014. The Authority received 12 months of free rent on the original 10,727 square feet, beginning in February of 2009, and received 12 months of free rent on the additional 4,320 of expansion space, beginning in July of 2009. Future minimum rentals to be paid by the Authority under the lease are \$323,000 in 2011, \$330,000 in 2012, \$338,000 in 2013 and \$28,000 in 2014. Rental expense, recognized on a straight-line basis, related to the Authority’s lease at One Cleveland Center totaled \$251,000 and \$248,000 for the years ended December 31, 2010 and 2009, respectively.

In February of 2010, the Authority agreed to sublease 4,320 square feet of office space to a third party, beginning in March 2010 until October 31, 2012. At the option of the tenant, the lease can be renewed until January 31, 2014. The tenant received six months of free rent on the 4,320 square feet as well as free rent on 1,620 square feet for the following six months. Future minimum rentals to be received by the Authority under the sublease are \$49,500 for 2011 and \$44,820 for 2012. Rental income, recognized on a straight-line basis, related to the Authority’s sub-lease totaled \$29,735 in 2010.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### **Note 14: Other Leases (continued)**

*Authority as Lessor* – Effective April 1, 2009, the Authority entered into several Operating Agreements for use of land, docks and warehouses owned by the Authority or leased from the City of Cleveland. Rather than assigning specific rents to the different properties, the Authority and the Terminal Operator agreed to a Master Fixed Rental and Tonnage Assessment Schedule for the period April 1, 2009 through March 31, 2010 that cover docks and warehouses both subleased by the Authority from the City of Cleveland and owned by the Authority.

In March of 2010, the Authority and the Terminal Operator entered into an Agreement under different terms than the 2009 Agreement. The Agreement, effective April 1, 2010 through March 31, 2011, has a base rental of \$400,000 per year and a Tonnage Assessment Schedule with the following rates: \$0.125 per ton on the first 100,000 tons; \$0.25 per ton on tons between 100,001 and 200,000 and \$0.75 per ton above 200,001 tons. If certain tonnage levels are reached under the terms of the Agreement, bonus payments would be received by the Authority.

The Authority recognized \$420,000 and \$435,000 in base rental income from the Operating Agreements for the years ended December 31, 2010 and 2009, respectively. The Authority also recognized \$135,048 in 2010 (of which \$24,750 related to additional payments for tonnage exceeding 300,000) and \$124,913 in 2009 in income associated with the Tonnage Assessment Schedule.

In total, the Authority recognized \$555,048 and \$559,913, respectively, in rental income from property leased or subleased to the Terminal Operator for the years ended December 31, 2010 and 2009. The future fixed rentals the Authority is scheduled to receive under the most recent Operating Agreements, via the Master Fixed Rental and Tonnage Assessment Schedule total \$100,000, all of which are due in 2011.

In March of 2011, the Authority and Terminal Operator entered into a new Agreement under similar terms and conditions as the 2010 Agreement, but eliminated the additional payments and reduced tonnage rates above 200,001 to \$0.725 per ton from \$0.75 per ton.

Effective April 1, 2005, the Authority entered into an Operating Agreement for approximately eight acres of property commonly referred to as Dock 20 directly north of property leased by Essroc. The Agreement automatically renewed for one-year terms until March 31, 2010 and was subject to an annual CPI increase.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### **Note 14: Other Leases (continued)**

In March of 2010, the Authority entered into a new Operating Agreement for Dock 20. The base rental was reduced to \$180,000 and the Agreement had provisions for additional payments if certain tonnage levels were achieved. The term of the Agreement was for 1-year, with no renewal options. The future fixed rentals the Authority is scheduled to receive under the Operating Agreement total \$45,000 in 2011.

The Authority recorded \$192,118 and \$228,470 in rental income from the Dock 20 Operating Agreement in 2010 and 2009, respectively.

In March of 2011, the Authority entered into an Operating Agreement for Dock 20 under the same financial terms and conditions as the 2010 Agreement.

In December of 2010, the Board of Directors authorized the use of property immediately east of Dock 20, commonly referred to as Dock 22. The Operating Agreement requires monthly rental payments of \$3,500 for a portion of the property for 12 months, beginning in February 2011 and for \$5,000 per month on the northern section of Dock 22 for February 1, 2011 through May 31, 2011. In May of 2011, the Authority agreed to extend the Agreement for the northern section of Dock 22 to be utilized through July 31, 2011. The future fixed rental the Authority is scheduled to receive under the Operating Agreement total \$68,500 in 2011 and \$3,500 in 2012.

In June of 1999, the Authority entered into a Memorandum of Agreement (MOA) with the Cleveland Browns to provide 2,200 parking spaces on property owned or leased by the Authority for each NFL game hosted at Cleveland Browns Stadium. Under this agreement, the Browns paid the Authority 50% of the net revenue generated from parking fees, or \$200,000, whichever was greater.

In 2000, the parties agreed to extend the agreement to June 30, 2011. The amendment in 2000 increased the base parking payment to the Authority to \$225,000 to recoup certain capital investments made by the Authority.

See Note 19 for information on the Authority's Lease with Chancellor University and also the "Subsequent Events" footnote for additional information on the Authority's various leases and agreements.

#### **Note 15: 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 natural disasters. 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. Settled claims have not exceeded the Authority's commercial insurance coverage for any the past three years.

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.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 16: Ohio Manufacturers' Association Grant**

In January of 2010, FirstEnergy Corporation, through its Ohio utilities subsidiaries – Ohio Edison, Cleveland Electric Illuminating Company and Toledo Edison (the Companies) – agreed to provide \$7.5 million over three years to support economic development and job retention projects under an agreement reached with The Ohio Manufacturers' Association (“OMA”). The agreement is related to the Companies' commitment to support economic development and jobs as part of their Electric Security Plan.

Under a Memorandum of Understanding (“MOU”) between three Ohio port authorities, the OMA, Ohio Edison, Cleveland Electric Illuminating Company and Toledo Edison, the Companies will provide approximately \$2.5 million to each of three Ohio port authorities to support their financing efforts, including the Cleveland-Cuyahoga County Port Authority. The money is to be invested into the Authority's Common Bond Fund Program's system of reserves. The initial investment of \$816,666 was deposited with the Bond Fund Trustee in January of 2010 and a second investment of \$833,333 was received in July of 2010. The \$1.65 million in funds received is reflected in the Authority's balance sheet as 'Restricted cash and investments' and the Authority has booked a \$833,333 'Grant Receivable' for the final payment, which is due in 2011. The Authority also recognized approximately \$2.5 million in nonoperating grant revenue in 2010 as a result of the MOU. Investment income earned on amounts deposited under the MOU will be paid semi-annually to the OMA.

### **Note 17: No-Commitment Debt**

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

**Common Bond Fund Program** – The Authority has established a Common Bond Fund Program (the “Program” or “Bond Fund”) to provide long-term, fixed interest rate financing of \$1 million to \$10 million to credit worthy businesses, governments and non-profit organizations for owner-occupied industrial, commercial, non-profit and infrastructure projects. Port of Cleveland Bond Fund Development Revenue Bonds are issued in accordance with the Ohio Revised Code and a Trust Indenture dated November 1, 1997 between the Authority and a local financial institution. The Common Bond Fund Program is managed by the Authority; however, these obligations 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 (or acceptable letter of credit) 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.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 17: No-Commitment Debt (continued)**

The 1997A and 1999A bonds issued through the Common Bond Fund Program are reflected on the Authority's Statement of Net Assets as the Authority is ultimately liable for both bond issuances. Additionally, approximately \$5.8 million (Program Development Fund, Program Reserve Fund and the OMA funds) in restricted cash and investments are also shown on the Authority's Statement of Net Assets, which primarily represents the Authority's initial investment in the Program and associated interest earnings and funds received from OMA. In the event of a default, any utilization of either the Program Development Fund or the Program Reserve Fund would result in a charge to the Authority's earnings.

Additionally, in 2004, the Authority's Board of Directors established an Auxiliary Reserve which could be utilized in the event of a default. As of December 31, 2010, the Reserve had a balance of approximately \$248,000, which is shown as restricted cash and investments on the Authority's Statement of Net Assets. The Auxiliary Reserve is Board-restricted and is not part of the Trust Indenture that governs the Common Bond Fund Program.

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, which is reflected as "Financing fee income" on the Statement of Revenues, Expenses, and Changes in Net Assets.

The primary reserve deposits, which totaled \$9.3 million at December 31, 2010, consist of cash, government obligations, acceptable letters of credit or other instruments allowed under the Indenture. A trustee holds these funds during the term the bonds are outstanding, with investment income earned on the Primary Reserve Fund amounts returned to the borrowers at their discretion. The balance in the Primary Reserve Fund established for each debt issuance is utilized to fund the final principal payment when the related debt issuance is completely repaid. In addition to the primary reserves, a Program Reserve and Program Development Fund are maintained to collateralize all of the obligations outstanding under the Program.

The Program Reserve and Program Development funds, including funds received from OMA, at December 31, 2010 were composed of a \$5.8 million cash reserve and a \$9 million irrevocable, nonrecourse letter of credit from a financial institution, which expires on March 1, 2020.

On December 23, 2009, the Trustee for the Common Bond Fund Program was notified that the letter of credit would not be extended beyond March 1, 2018. In October of 2010, the letter of credit was extended to March 1, 2020.

In August of 2009, Fitch Ratings downgraded the Common Bond Fund Program to "BBB-", with a Rating Outlook of Negative. In August of 2010, Fitch Ratings issued a press release announcing it had withdrawn its rating on the Common Bond Fund Program, as well as five other Ohio pooled loan programs.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### **Note 17: No-Commitment Debt (continued)**

In October of 2010, Standard & Poor's Ratings Services assigned its 'BBB-' long-term rating and stable outlook to various series of bonds issued under the Common Bond Fund program. It also assigned this rating to two bond fund issues in December 2010.

The issuances through the Common Bond Fund Program are reflected in the Statement of Fiduciary Net Assets, with the exception of the 1997A and 1999A bonds.

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

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

The Authority acts as an agent for the Common Bond Fund Program and certain Conduit Financing obligations, and as such the related assets and liabilities to the extent of asset balances are reported in the Statement of Fiduciary Net Assets. The aggregate amount of outstanding debt for the Common Bond Fund Program was \$70,965,000 (excluding the 1997A and 1999A bonds that are obligations of the Authority) and Conduit Financing Obligations was \$867,139,083 as of December 31, 2010. The aggregate amount of outstanding debt for the Common Bond Fund Program was \$63,790,000 (excluding the 1997A and 1999 bonds that are obligations of the Authority) and the Conduit Financing Obligations was \$725,912,044 as of December 31, 2009.

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

#### **Note 18: Myers University**

At December 31, 2007, one of the issuances through the Common Bond Fund Program was for Myers University, an organization that had negative working capital and had recently been experiencing significant operating losses. The 2004E bonds were issued in December of 2004 in the amount of \$5,725,000, with no principal scheduled to be paid until December of 2008, and proceeds were used to acquire and renovate an educational facility located on Chester Avenue in Cleveland, Ohio.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 18: Myers University (continued)**

An action was filed on December 10, 2007 in the Cuyahoga County Common Pleas Court by certain donors and former trustees of Myers University who sought to prevent the University from closing. An emergency motion for a temporary restraining order was granted on December 12, 2007, keeping Myers University open as an operating entity. As part of that order, the Court also appointed a Special Master and issued a restraining order limiting the disbursement or transfer of funds or accounts of the University without prior approval of the Court.

In May of 2008, the Court issued an order approving the sale of substantially all of the Assets of Myers University, free and clear of liens, to Myers University Systems LLC, a for-profit limited liability company, pending completion of due diligence, satisfaction of contingencies, and negotiating a purchase agreement.

On August 21, 2008, an Asset Purchase Agreement was entered into between Myers University Systems LLC and the Special Master. Part of the consideration was in the form of a \$2.25 million Note, which was secured by a Mortgage on the Chester Avenue facility which was financed by the 2004E bonds. As a result of the Asset Purchase Agreement, the Authority prepared a Notice of Call to the holders of the Bonds and filed a Material Event Notice (Bond Call) as a result of the Bonds becoming taxable.

On September 15, 2008, the Bonds were redeemed and paid in full, and the Authority subsequently acquired from the Bond Trustee the Note and Mortgage for \$2,250,000 payable on August 21, 2010.

The Internal Revenue Service conducted an examination of the tax-exempt bonds which were redeemed. As a result of that examination, the IRS issued a letter on April 15, 2009 indicating that it closed the examination with no change in the tax-exempt nature of the Bonds as of redemption and that the redemption occurred in compliance with IRS regulations.

Myers University Systems LLC, the original purchaser of the assets of Myers University, is now Chancellor University System, LLC (“Chancellor University”).

### **Note 19: Chancellor University**

As part of the Order to Sell the assets of Myers University and the subsequent Settlement Agreement between the creditors, the Authority received a Cognovit Promissory Note and mortgage (through the bond trustee) from the purchaser of the assets of Myers, Myers University Systems LLC, now referred to as “Chancellor University.”

The Order to Sell also escrowed a portion of the sale proceeds that would be paid to creditors in 18-months if certain conditions were met. The Authority had a \$161,437 receivable (“Due from Chancellor University”) on its balance sheet as of December 31, 2009 relating to this portion of the transaction, which was collected in 2010. The Note received by the Authority was for \$2,250,000 (“Due from Chancellor University”), and was scheduled to mature on August 21, 2010. Interest was paid quarterly at the Prime Rate, plus the Applicable Margin (2 percentage points).

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

### December 31, 2010 and 2009

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#### **Note 19: Chancellor University (continued)**

In August of 2010, the Authority and Chancellor University entered into a Forbearance and Deed in Lieu of Foreclosure Agreement in order to satisfy the \$2.25 million payment due to the Authority.

In exchange for forbearance on the Note, the Authority received \$250,000 in cash upon executing the Agreement, an additional \$250,000 payable by December 31, 2010 (“Due from Chancellor University” – Current assets), a \$250,000 note, with quarterly \$12,500 principal payments, payable over 5 years with interest at Prime plus 2% (“Due from Chancellor University” – Restricted and other assets), and free and clear title to the 41,230 square foot Chester Avenue facility originally financed by Authority issued bonds in 2004.

The Authority took title to the Chester Avenue facility on December 30, 2010. As of December 31, 2010, the Authority valued the land acquired at \$205,052 and the building at \$1,294,948, which is being depreciated over a 20-year period utilizing the straight-line method.

No gain or loss was recognized by the Authority on the transaction with Chancellor University.

The \$250,000 payment due on December 31, 2010 was received by the Authority on January 3, 2011.

In November of 2010, the Authority and Chancellor University entered into a six-month Lease Agreement for the Chester Avenue facility. The term of the Lease would be from January 1, 2011 through June 30, 2011 with a rental rate of \$17,179 per month. The Lease was subsequently amended to extend through July 31, 2011. The facility was subsequently leased to another party commencing August 1, 2011. See “Subsequent Events” footnote.

#### **Note 20: New Market Tax Credit Program**

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

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 20: New Market Tax Credit Program (continued)**

NEODF may utilize the credits provided it complies with terms and conditions of the Cooperative Agreement and the New Market Tax Credit Program. The Authority has no obligation for compliance under the New Market Tax Credit Program, but receives certain fees and other monies from investments made by NEODF and related organizations under the program. The Authority did not recognize any fees under the program for 2010 and 2009, from tax credit investments made by NEODF and related subsidiary LLC's. Under the terms of the Cooperative Agreement, the Authority is to receive additional funds upon the conclusion of the various transactions undertaken by NEODF, for those transactions that are not in default and for which no compliance deficiencies exist. As a result of the two transactions undertaken by NEODF, the Authority could receive \$573,660 in 2012 and \$697,500 in 2014, plus interest, should the conditions described above be met.

The Authority has not booked a receivable on the balance sheet for these amounts, due to the uncertainty of the underlying transactions and compliance issues.

In 2009, NEODF received an additional allocation of New Market Tax Credits. On June 29, 2009, NEODF and the Community Development Financial Institutions Fund entered into an allocation agreement to evidence this new allocation of \$30 million.

In February of 2011, NEODF was notified that it had received an additional \$18 million allocation of New Market Tax Credits. In May 2011, NEODF deployed \$10 million of the previously awarded \$30 million allocation.

### **Note 21: Flats East Bank Project**

The Authority, in collaboration with the City of Cleveland, Cuyahoga County, the State of Ohio, the Northeast Ohio Regional Sewer District, the Cleveland Municipal School District, Greater Cleveland Partnership and others has been working for the past several years with Scott Wolstein, through Flats East Development LLC ("Developer"), on a major redevelopment project in the City of Cleveland known as the Flats East Bank Project (the "Project").

Additionally, the City of Cleveland, the Authority, and the Developer negotiated and executed a Project Development Agreement (the "Development Agreement"), which fully sets forth the details of the Project and its construction, the financing for the public infrastructure and certain other Project improvements, as well as other Project requirements.

The Development Agreement references a piece of property, commonly referred to as the "Loop" site. The Developer has an option to purchase the approximately three acres parcel under two circumstances. If the "Loop" is developed to house the commercial offices of the Federal Defense Finance and Accounting Service (DFAS), the Developer shall be conveyed the site for nominal consideration. If DFAS does not occupy the site, then the purchase price shall be an amount mutually agreeable to the Authority and the Developer. There is no timeframe associated with the expiration of the option stated in the Development Agreement.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 21: Flats East Bank Project (continued)**

Financing for the Project, including bonds issued by the Authority, occurred in 2010. This was after the Authority assisted in acquiring the site through eminent domain proceedings, which have since concluded and resulted in acquisition of the property needed for the Project at the Developer's cost. The bonds issued in 2010 provided funding for the first phase of the Project and involved approximately \$275 million in funding and equity, including a Common Bond Fund issuance and three series of First Mortgage Revenue Bonds issued by the Authority for an office building, hotel, and retail facilities, respectively.

### **Note 22: NASA Grant**

In May of 2007, the State of Ohio awarded the Authority a \$5,000,000 Job Ready Sites (JRS) Grant. The assistance was to offset costs of creating a technical center and research laboratory for the NASA Plum Brook Space Power Facility in Erie County, Ohio. In 2009, the Authority received the \$5,000,000 Grant and then reimbursed NASA for the costs incurred in developing the technical center.

### **Note 23: Contingencies**

The Authority, in the normal course of its activities, is involved in various claims and pending litigation. In the opinion of Authority management, the disposition of these other matters is not expected to have a material adverse effect on the financial position of the Authority.

### **Note 24: OSF Properties / Amtrust Financial Corporation**

In 2004, the Authority was the issuer for \$16,000,000 in revenue bonds for the construction of a parking structure and retail space on Euclid Avenue in Cleveland, Ohio. The borrower was OSF Properties, a subsidiary of Amtrust Financial (formerly Ohio Savings Bank).

On November 30, 2009, a series of debtors under the umbrella of Amtrust Financial Corporation filed for bankruptcy protection.

The bonds are non-recourse to the Authority and solely secured by the revenues from the Project. The Authority has no obligation to repay the bonds.

The Authority filed a claim in Bankruptcy Court in an unknown amount under the lease and mortgage for the annual fee due to the Authority. The sole bond holder, a financial institution, has recently worked with the debtor to sell the parking facility at auction and the Bankruptcy Court has order such sale. The Authority, upon completion of the sale, will give up any interest in the parking facility it may own through the current ground lease. The sale of the asset will have no material impact on the Authority's financial statements other than its removal from the Statement of Fiduciary Net assets.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 25: City of Garfield Heights / CityView Center Project**

In 2004, the Authority issued \$8.85 million in development revenue bonds through the Common Bond Fund Program to fund certain infrastructure improvements in connection with the CityView Center retail development in Garfield Heights, Ohio. The bonds were to be repaid from payments in lieu of taxes (“PILOTS”) from the increase in value on the property from the retail development.

In February of 2009, the largest secured creditor of CityView Center, LLC filed an action for the Appointment of Receiver against CityView. The project has run into economic difficulties due to environmental issues and concerns, and the loss of its largest retail tenant, as well as other tenants.

The Receiver and the Board of Education of Garfield Heights subsequently entered into a settlement of tax values as a result of a pending tax contest. The settlement resulted in reduced assessed valuations for the properties, owned by City View Center, LLC, subject to payment of PILOTS for the bonds. There is other property owned by other parties that is also subject to PILOTS.

Based on these reductions, there is still sufficient value to support the bond debt service. Currently, the Trustee holds sufficient funds to pay debt service on the bonds through 2012.

### **Note 26: Subsequent Events**

***Ohio Department of Development Logistics and Distribution Loan (the “Loan”)*** – In December 2010, the Authority authorized the execution of a Term Sheet and Commitment Letter with the Ohio Department of Development to receive a \$3,025,000 Logistics and Distribution Loan from the State of Ohio for the construction of a rail loop on the Authority’s property as well as other improvements. The final amount of the loan is dependent on the project cost, with the Ohio Department of Development agreeing to fund 75% of the total project cost, up to a \$3,025,000 maximum. It is expected that the Authority’s investment will total just over \$1,000,000. The Loan, including accrued interest, may be forgiven by the Ohio Department of Development, provided the Authority completes the project by October 31, 2012 and there are 9,350 man-hours worked during construction.

In January of 2011, the Board approved a \$469,000 contract with an engineering firm to design the project, as well as an agreement with a short-line railroad operator to provide switching and other services to the Authority once the track has been installed.

In May of 2011, the Authority executed the final Loan Agreement with the Ohio Department of Development. The Authority is still working on design plans and anticipates construction will commence in the 3<sup>rd</sup> quarter of 2011.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### Note 26: Subsequent Events (continued)

**Essroc Cement Corp. Lease Amendment** – In March of 2011, the Authority amended the Ground Lease and Operating Agreement with Essroc Cement Corp. Under the terms of the amendment, 3.07 of the total 6.45 acres included in the original Lease will no longer be utilized by the company and will be available for alternative uses, effective August 1, 2011. In exchange for removing the acreage from the Lease, Essroc's annual Ground Lease Rental will be reduced by 30%. The Improvement Rental, which pays principal and interest on the 1997A bonds issued by the Authority, remains unchanged. The future minimum rental payments to be received under the Amended Ground Lease and Operating Agreement, which is accounted for as an operating lease, are as follows (assuming no annual CPI increase):

<u>Year</u>	<u>Amount</u>
2011	\$ 366,273
2012	359,870
2013	362,785
2014	361,938
2015	359,804
2016 – 2020	1,810,596
2021 – 2025	1,787,997
2026 – 2027	<u>563,358</u>
Total	\$ <u>5,972,621</u>

**I Can Schools, Inc. Lease Agreement** – In May of 2011, the Authority entered into a 5-year Lease Agreement with I Can Schools, Inc. for the property formerly occupied by both Myers and Chancellor University. The Lease commences on August 1, 2011 and expires July 31, 2016, with an option to extend the Lease for an additional three year period. Annual rental payments under the lease are \$15,000 per month in the first year, \$16,000 per month in years two and three and \$17,500 per month in years four and five. The future minimum rental payments to be received under the Lease Agreement are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 75,000
2012	185,000
2013	192,000
2014	199,500
2015	210,000
2016	<u>122,500</u>
Total	\$ <u>984,000</u>

**Old River Property and State of Ohio 166 Loan** – In May of 2011, the Authority received \$841,907 in relation to the sale of approximately 5 acres of property on the Old River channel. At the time of the sale, the land and associated improvements had a net carrying value of \$1,147,646. Additionally, the Authority had a receivable on its balance sheet related to the straight-line accounting of this lease of \$110,489 as of the date of the sale. The resulting loss from the sale will be recognized in 2011. Additionally, the Authority paid off approximately \$224,000 of the remaining balance of the State of Ohio 166 Loan in May of 2011.

# Cleveland-Cuyahoga County Port Authority

## Notes to Financial Statements (continued)

**December 31, 2010 and 2009**

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### **Note 26: Subsequent Events (continued)**

*Nehst Creations Project* – In May of 2010, the Authority issued \$5,200,000 in taxable special revenue notes for Nehst Creations LLC. The proceeds were to be used for the production of three movies in Cleveland, Ohio. The structure of the financing through the Bond Indenture required a certain amount of equity to be in place with the trustee, as well as a film completion bond, in order for the actual film production to commence.

In June 2011, the trustee, as per the direction of the note holder, issued notices of default for all three of the proposed Nehst productions. Nehst was unable to raise the equity necessary to complete the project. The note holder exercised its rights under the project agreement to redeem the available balance of the notes.

The notes are non-recourse to the Authority and the Authority has no obligation to repay the notes.

# Cleveland-Cuyahoga County Port Authority

## Common Bond Funds

### For the Year Ended December 31, 2010

The following are the approximate balances held and the principal amount of outstanding Common Fund Bonds as of December 31, 2010:

<u>SERIES</u>	<u>Contracting Party</u>	<u>Original Bond Amount</u>	<u>Outstanding Principal Balance</u>	<u>Primary Reserve Balance</u>	<u>Final Maturity</u>
1997A	Essroc /Port Authority (1)	\$ 3,795,000	\$ 2,975,000	\$ 366,641	05/15/2027
1998A	Jergens, Inc.	5,720,000	2,920,000	572,000	05/15/2018
1998B	NOACA	3,345,000	1,730,000	324,472	05/15/2018
1999A	Port Authority (1)	5,230,000	2,915,000	520,385	05/15/2019
1999B	Universal Heat Treating, Inc.	1,480,000	380,000	148,000	11/15/2014
2001A	Council for Economic Opportunities in Greater Cleveland	4,440,000	2,185,000	444,000	05/15/2016
2001B	Cleveland Bottle & Supply Co.	1,500,000	1,060,000	150,000	11/15/2021
2002A	Community Assessment and Treatment Services, Inc.	2,090,000	1,545,000	209,000	05/15/2022
2002C	Cleveland Christian Home, Inc.	5,130,000	3,845,000	513,000	05/15/2022
2003A	Heidtman Steel Products	4,250,000	1,420,000	425,000	05/15/2013
2004A	Luigino's, Inc.	5,000,000	3,470,000	500,000	05/15/2019
2004B	City of Cleveland	2,965,000	1,070,000	296,500	05/15/2027
2004C	Tru-Fab Technology, Inc.	1,060,000	850,000	106,000	11/15/2023
2004D	City of Garfield Heights	8,850,000	7,850,000	885,000	05/15/2023
2005A	Goodyear Tire & Rubber Co.	4,125,000	2,190,000	412,500	05/15/2014
2005B	Fairmount Montessori Associates	3,375,000	2,960,000	337,500	05/15/2025
2005C	Avery Dennison Corp.	6,000,000	6,000,000	600,000	11/15/2015
2005D	Columbia National Group, Inc.	6,020,000	4,560,000	602,000	05/15/2020
2006A	Cavaliers Practice Facility	9,500,000	8,645,000	950,000	05/15/2026
2008A	Brush Wellman, Inc.	5,155,000	4,965,000	515,500	05/15/2023
2009A	Eaton World Headquarters	2,000,000	2,000,000	200,000	11/15/2020
2010A	City of Cleveland - Forest Bay Tower	2,520,000	2,520,000	252,000	05/15/2034
2010B	Flats East Development	<u>8,800,000</u>	<u>8,800,000</u>	<u>880,000</u>	05/15/2040
Total		<u>\$102,350,000</u>	<u>\$ 76,855,000</u>	<u>\$ 10,209,498</u>	

#### Summary of Reserves:

Primary Reserve Funds	\$ 10,209,498
Program Development Fund (2,3)	118,569
Program Reserve (3)	3,999,454
Program Reserve – Ohio Manufacturers Association	1,650,105
Program Reserve LOC	<u>9,000,000</u>
Total Reserve Funds	<u>\$ 24,977,626</u>

Total Reserves/Outstanding Bonds 32.50%

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

# Cleveland-Cuyahoga County Port Authority

## Non-Bond Fund Issuances

### For the Year Ended December 31, 2010

The following are the listing of non-Bond Fund debt issuances undertaken by the Authority for which there is still principal outstanding as of December 31, 2010:

	<u>Non-Bond Fund Debt Issuances</u>	<u>Year</u>	<u>Type of Debt Issued</u>	<u>Original Issuance</u>	<u>Principal Outstanding</u>
1	Applied Industrial Technologies	1996	Revenue Bonds	\$ 18,835,000	\$ 11,147,909
2	University Square	2001	Revenue Bonds (Special Assessment)	40,600,000	38,370,000
3	Carnegie/96th Research Building LLC	2003	Revenue Bonds	32,000,000	30,500,000
4	OSF Properties	2004	Taxable Development Revenue Bonds	16,000,000	12,768,000
5	City of Brecksville	2004	Tax-Exempt Revenue Bonds	2,195,000	1,110,000
6	RITA (2)	2004	Development Revenue Bonds	20,990,000	16,430,000
7	Marine Mechanical	2004	Taxable Economic Development Lease Revenue Bond	8,470,000	5,440,000
8	Playhouse Square Foundation	2004	Variable Rate Cultural Facility Revenue Bonds	18,000,000	9,550,000
9	Euclid Avenue Housing Corp.	2005	Student Housing Facility Revenue Bonds	34,385,000	32,205,000
10	Avery Dennison Corp.	2005	Taxable Development Lease Revenue Bonds	39,785,000	34,440,000
11	Cleveland Museum of Art	2005	Cultural Facility Revenue Bonds	90,000,000	90,000,000
12	Judson	2005	Development Revenue Refunding Bonds	31,500,000	28,740,000
13	Park Synagogue	2006	Multi-Mode Variable Rate Revenue Bonds	9,995,000	9,995,000
14	St. Clarence-GEAC, LLC Project	2006	Senior Housing Revenue Bonds	17,120,000	16,855,000
15	Carnegie/89 <sup>th</sup> Garage and Service Center, LLC	2007	Revenue Bonds	156,920,000	153,395,000
16	SPC Buildings 1 & 3, LLC	2007	Revenue Bonds	34,590,000	33,705,000
17	Science Park Cleveland, LLC	2007	Taxable Convertible Revenue Bonds	45,700,000	44,220,000
18	Laurel School	2008	Variable Rate Educational Facility Revenue Bonds	16,000,000	16,000,000
19	Euclid Avenue Housing	2008	Variable Rate Demand Revenue Bonds	14,500,000	14,500,000
20	Veterans Development Office/Parking	2009	Revenue Bonds	115,000,000	115,000,000
21	Eaton World Headquarters	2009	Capital Lease Bonds	13,695,004	13,695,004
22	Nesht Creations, LLC	2010	Revenue Bonds	5,200,000	5,200,000
23	Cleveland Museum of Art	2010	Cultural Facility Revenue Bonds	70,430,000	70,430,000
24	Independence Research Park - Cleveland Clinic	2010	Development Revenue Refunding Bonds	46,000,000	46,000,000
25	Hospice of Western Reserve, Inc.	2010	Refunding Bonds	3,938,170	3,938,170
26	Oriana Services, Inc.	2010	Tax-Exempt Revenue Refunding Bonds	2,505,000	2,505,000
27	City of Cleveland - Flats East Bank	2010	City Appropriation Bonds	<u>11,000,000</u>	<u>11,000,000</u>
			Total	\$ <u>915,353,174</u>	\$ <u>867,139,083</u>

## Stadium Financing

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

# Cleveland-Cuyahoga County Port Authority

## Non-Bond Fund Issuances (continued)

### For the Year Ended December 31, 2010

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#### Stadium Financing (continued)

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

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

In March and May of 2008, the City of Cleveland requested that the Authority Board of Directors authorize and approve the signing and delivery of various documents in connection with the refinancing of the Cleveland Brown's Stadium, including supplements to the Lease-Purchase Agreement and Trust Agreement, providing for the issuance of additional certificates under the Trust Agreement to refund the outstanding 2007 Certificates of Participation or to convert certain of the 2007 Certificates of Participation from one interest rate period to another interest rate period, thus enabling the City of Cleveland to obtain savings or to minimize risks of increased interest expense on the 2007 Certificates of Participation and the City of Cleveland's corresponding base rent payments under the Lease Agreement.

#### Flats East Bank Project Additional Information

In December 2010, the Authority authorized the issuance of several series of bonds for the Flats East Bank project. The Series of bonds listed below are collectively referred to as the "First Mortgage Bonds", which will be used to fund the office, hotel and retail portions of the \$275,000,000 Flats East Bank redevelopment.

- \$50,000,000 Series 2010 A-1 (Flats East Office Project)
- \$39,000,000 Series 2010 A-2 (Flats East Office Project)
- \$15,000,000 Series 2010B (Flats East Hotel Project)
- \$5,000,000 Series 2010C (Flats East Retail Project)
- \$3,000,000 Series 2010 A-1 (Flats East Office Project – Additional Bonds)

Additionally, in May of 2011, the Authority authorized the issuance of up to an additional \$5,000,000 of First Mortgage Lease Revenue Bonds, Series 2011B, related to the Flats East Hotel Project. Principal on the above bonds is advanced by the bond purchaser for each Series to the respective lessees for each component of the project in installments. As of December 31, 2010, there were no material advances of principal, so the various bond series are not listed on the listing of Non-Bond Fund Debt Issuances because no principal is outstanding, however the issuance amount has been authorized. Additional bond issuances related to the Flats East Bank project were \$11,000,000 of City of Cleveland Annual Appropriation Bonds and \$8,800,000 in Cleveland-Cuyahoga County Port Authority Common Bond Fund Bonds (2010B), both of which are included in the supplemental schedules showing various bond financings undertaken by the Authority.

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**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Cleveland-Cuyahoga County Port Authority

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Cleveland-Cuyahoga County Port Authority (the “Authority”) as of and for the year ended December 31, 2010, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated June 20, 2011, wherein we noted that the Authority adopted *Governmental Accounting Standards Board Statement Nos. 51, 53, and 58*, as disclosed in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

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

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

Board of Directors  
Cleveland-Cuyahoga County Port Authority

### **Compliance and Other Matters**

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

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

*Cini & Panichi, Inc.*

Cleveland, Ohio  
June 20, 2011

# Cleveland-Cuyahoga County Port Authority

## Schedule of Findings

**December 31, 2010**

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### 1. Summary of Auditors' Results

Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies reported at the financial statement level (GAGAS)?	No
Was there any material weaknesses reported at the financial statement level (GAGAS)?	No
Was there any material noncompliance reported at the financial statement level (GAGAS)?	No

### 2. Findings Related To The Financial Statements Required To Be Reported In Accordance With GAGAS

None.

### 3. Other Findings

None.

# Cleveland-Cuyahoga County Port Authority

## Schedule of Prior Year Findings

December 31, 2010

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<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected</b>
2009-01	<p>Financial Reporting – Material Weakness</p> <p>Sound financial reporting is the responsibility of the Authority’s Chief Financial Officer and Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.</p> <p>The following audit adjustment was made to the financial statements:</p> <p style="padding-left: 40px;">Restatement of capital assets as of December 31, 2007, due to a portion of land improperly capitalized in previous years.</p>	Yes