

ANNUAL DEVELOPMENT ACTIVITY AND DISCLOSURE REPORT

For the Period Ending June 30, 2005

*\$40,500,000 Cleveland-Cuyahoga County Port Authority
University Heights, Ohio – Public Parking Garage Project
Senior Special Assessment/Tax Increment Revenue Bonds, Series 2001A*

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I. UPDATED INFORMATION

Information updated from the Annual Development Activity and Disclosure Report dated July 2, 2005 is as follows:

- Starwood Wasserman has reported that the development was sold to Inland Western University Heights University Square, LLC on May 2, 2005. The agent for the new owner is Inland US Management, LLC.
- Starwood Wasserman has reported that work on the parking garage is complete and open for public use since June 1, 2003.
- Starwood Wasserman has reported that sitework and site improvements have been completed and are fully operational .
- Inland US Management, LLC reports that, 100 percent of the space reserved for anchor tenants is either sold or leased.
- Inland US Management, LLC reports that, 55.1 percent of the remaining 235,131 square feet of leaseable retail space is now leased.
- Inland US Management, LLC reports that Key Bank opened for business on January 22, 2004, EB Game World opened for business on December 1, 2003, Alltel opened for business on October 1, 2003, GNC opened for business on November 1, 2003, and Coldstone Creamery opened for business on October 14, 2004.
- According to the Cuyahoga County Auditor's Office, service payments collected in 2005 are estimated to be \$2,902,689.58. This includes only the first half service payment on parcel 721-01-003 (the Parking Garage parcel), which will be classified as tax exempt in the future. On August 9, 2005, the City of University Heights transferred \$1,874,667.29 in first half service payments to the revenue fund service payment account held by the trustee. The county anticipates transferring to the city the estimated second half service payments in the amount of \$1,028,022.29, which were due on July 7, 2005, sometime in November 2005. As a result, there are no delinquent service payments at this time.
- As of January 1, 2004, the assessed value of the property within the Development Site was \$68,007,800, which represents an increase of \$62,914,890 in the base year assessed value of \$5,092,910.
- According to the Cuyahoga County Board of Revision, a decision has been reached on the challenge to the valuation of real property that was filed for tax years 2002 and 2003 on parcel 721-01-002, which is owned by the May Company Department Stores. The Board of Revision found that the true value of the property for the 2002 and 2003 tax years was equal to \$15,000,000, which is a reduction of \$8,000,000 and \$9,394,600 in the true value for the 2002 and

2003 tax years, respectively. As a result, the assessed value of parcel 721-01-002 for the 2002 and 2003 tax years was equal to \$5,250,000 each year.

- On December 27, 2002, Starwood Wasserman University Heights Holding, LLC filed an application for a real property tax exemption on the parking garage parcel (PIN 721-01-003) with the State of Ohio for the tax years 2001 and 2002. On the same date, University Square Parking, LLC filed an application for a real property tax exemption on the parking garage parcel with the State of Ohio for the tax years 2002, 2003 and beyond. These applications are based upon the fact that the parking garage parcel is owned by the Cleveland Cuyahoga County Port Authority, an entity whose property is tax exempt. On December 14, 2004, the Ohio Department of Taxation denied the first application because property for which an applicant seeks exemption from real property taxation must have been owned by the applicant and used for an exempt purpose as of the tax lien date, January 1st, in the year in which exemption is sought. Since the applicant did not acquire title to the property or the property was not used for an exempt purpose until March 29, 2002, the Ohio Department of Taxation denied the application for the 2002 tax year. As of August 29, 2005, the second application was still pending, however, we anticipate that the application will be approved for the 2003 and subsequent tax years.

II. INTRODUCTION

Cleveland-Cuyahoga County Port Authority (the “Port Authority”) issued the \$40,500,000 Series 2001A Senior Special Assessment/Tax Increment Revenue Bonds (University Heights, Ohio - Public Parking Garage Project) pursuant to (i) Sections 4582.01 through 4582.20 of the Ohio Revised Code (the “Port Act”) and the Tax Increment Financing Agreement, dated April 30, 2001 (the “TIF Agreement”), by and among the city, the developer and the Cleveland Heights-University Heights City School District (the “School District”) and ordinance Number 2001-28, which was passed by the City Council on April 16, 2001 (the “TIF Ordinance”), and (ii) an indenture of trust by and between the Port Authority and J.P. Morgan Trust Company National Association, as trustee, dated as of December 1, 2001.

The bonds are special, limited obligations of the Port Authority, which are secured by service payments in lieu of taxes (PILOTs) for a period of thirty years in an amount equal to the real property tax collections arising from the increase, if any, in the assessed value of real property located within the Development Site since January 1, 2000. To the extent that the service payments are insufficient to pay annual debt service and administrative expenses, a special assessment is to be levied on the taxable parcels within the assessment site.

The property in the assessment site consists of 10 acres of land within the 15 acre University Square Development Site, which is located at the southeast corner of Cedar and Warrensville Center Roads in University Heights, Ohio. Starwood Wasserman has constructed on the assessment site a multi-level retail center consisting of a 164,684 square foot retail facility that has been sold to Kaufman’s, a 164,590 square foot retail facility that has been sold to Target and approximately 291,726 square feet of additional leasable space.

Pursuant to the official statement, \$40,500,000 in special limited obligation bonds (Series 2001A) were sold to finance the acquisition and construction of a five level parking garage with approximately 2,260 parking spaces, which will serve the property located within and adjacent to the assessment site.

Continuing disclosure pursuant to Rule 15c2-12 of the Securities and Exchange Commission is required for the bonds. The Port Authority, developer and administrator have agreed to provide financial information, operating data and event disclosures in accordance with the Rule 15c2-12 promulgated by the Securities and Exchange Commission.

Starwood Wasserman reports that the development was sold to Inland Western University Heights University Square, LLC on May 2, 2005. The agent for the new owner is Inland US Management, LLC.

The information in this report on development activity was provided by Inland US Management, LLC and is believed to be accurate; however, no effort has been made to independently verify the information.

III. DEVELOPMENT ACTIVITY

A. OVERVIEW

The University Square project is located at the southeast corner of the intersection of Cedar and Warrensville Center Roads in University Heights, Ohio. The land in the University Square development site is comprised of approximately 15 acres and is adjacent to the Parking Garage Project site. University Square was planned as a multi-level retail center combining the attributes of both a community center and power center into a vertical retail center. The Official Statement reported that approximately 609,000 square feet of leaseable space would be created in the vertical retail center.

As outlined in the Official Statement, Starwood Wasserman anticipated that 388,100 square feet of aggregate leaseable anchor space and 220,900 square feet of additional retail and restaurant space would be created. Starwood Wasserman anticipated that parcels would be sold for the anchor space reserved for a 165,000 square foot redeveloped Kaufmann's Department Store and a new 164,000 square foot Target Store. In addition to the 291,726 square feet of retail and restaurant space mentioned above, Starwood Wasserman also anticipated that two outparcels totaling approximately 10,000 square feet would be created. As a result, Inland US Management, LLC has since revised the total square footage figure to 621,000 square feet of leaseable space, which will be made available to retailers.

As outlined in the Official Statement, the construction of the public parking garage facility funded with bond proceeds was to include a five level public parking garage facility consisting of approximately 2,260 parking spaces and an additional 340 spaces of surface and structured parking located next to the adjacent retail development project for a total of approximately 2,600 parking spaces which will serve the retail project.

B. STATUS OF PARKING GARAGE CONSTRUCTION

According to Starwood Wasserman, the parking structure was built in phases. This was done to expedite the schedule and to provide an additional source of parking for the new Kaufmann's store, which was necessitated due to the requirement that the existing Kaufmann's store remain open until the completion and opening of the new Kaufmann's store. The initial phase of construction was completed on time and was opened for public parking on February 28, 2002.

The parking facility construction is referred to as a "Hybrid" system, utilizing a combination of structural steel and pre-cast concrete panels. The erection of the structural steel and the precast "T" beams were completed by the beginning of October 2002. Starwood Wasserman has reported that the second phase of construction was completed on October 22, 2002, providing an additional 1,000 spaces for the Kaufmann's store during the holiday season with one elevator operational to provide access between all levels. The remainder of the work, the electrical, lighting, elevators, etc. and finishes were complete and open for public use on June 1, 2003.

Work is complete on the remaining parking garage elevators. All the pedestrian bridges connecting the parking garage to the retail spaces are completed. Directional signage has been installed. The Security system is complete. All the punch list items have been addressed. The

developer reports that the public parking garage was completed and opened for public use on June 1, 2003.

C. STATUS OF RETAIL FACILITY CONSTRUCTION

Starwood Wasserman has reported that the new Kaufmann's store was completed and opened for business on March 6, 2002. Starwood Wasserman has also reported that the Tops Supermarket was completed and opened for business on April 2, 2003.

Starwood Wasserman has reported that the exterior shell was turned over to Target on January 1, 2003, allowing them to commence their tenant fit-out work. The exterior and interior fit out work for the Target Store is complete. Starwood Wasserman has reported that the Target store opened for business on July 20, 2003. Starwood Wasserman has reported that work was completed on the exterior and roof of the Cedar Shops and the shops have opened.

Starwood Wasserman has reported that the following retailers opened for business on the dates provided below.

T.J. Maxx	May 15, 2003
Famous Footwear	May 24, 2003
Footlocker	May 31, 2003
Pier 1 Imports	May 31, 2003
Applebees	June 30, 2003
JoAnn's	October 6, 2003
Catherine's	October 23, 2003
LeNails	February 9, 2004

Inland US Management, LLC has reported that the following retailers opened for business on the dates provided below.

Alltel	October 1, 2003
GNC	November 1, 2003
EB Game World	December 1, 2003
Key Bank	January 22, 2004
Coldstone Creamery	October 14, 2004

According to Starwood Wasserman, sitework and site improvements have been completed and are fully operational. All traffic signals and pylon signage is installed, and work on landscaping and irrigation is complete.

(i.) Leasing Status

Table III-1 below provides a list of those entities that are currently reported as tenants in University Square. Two parcels totaling 329,274 square feet have been sold to the Kaufmann's and Target Department stores. The remaining leaseable space reserved for an anchor tenant is occupied by the Tops Supermarket. As a result, 100 percent of the space reserved for anchor tenants is now either sold or leased. There is 235,131 square feet of leaseable space reserved for other retailers and restaurants. According to Inland US Management, LLC, 129,567 square feet or 55.1 percent of this

space is now leased.

In addition to the leases mentioned below, Inland US Management, LLC reports that leasing discussions are continuing with a number of potential tenants including: Best Buy, Books-a-Million, Circuit City, Curves, Dallas Shoes, HH Gregg, Levin Furniture, Office Depot, Office Max, Old Navy, PetSmart, Sofa Express, Staples and Steve & Barry's.

Table III-1
Status of Leasing

<u>Status of Negotiations</u>	<u>Company</u>	<u>Square Footage</u>	<u>Percent</u>	<u>Lease Termination Date</u>
I. Owner Occupied Parcels				
Parcels Under Sale Contract	Kaufman's	164,684	26.52%	N/A
	Target	164,590	26.50%	N/A
	<i>Total Owner Occupied:</i>	329,274	53.02%	
II. Leased Parcels				
Leases - Signed:	Tops Supermarket	56,595	9.11%	05/01/18
	Famous Footwear	12,910	2.08%	12/31/13
	Applebee's	4,820	0.78%	12/31/23
	Le Nails	800	0.13%	12/31/18
	TJ Maxx N More	45,610	7.34%	12/31/13
	Key Bank	5,427	0.87%	12/31/13
	Catherine's	4,070	0.66%	12/31/13
	EB Game World	1,215	0.20%	12/31/08
	Alltel	1,510	0.24%	12/31/03
	Pier 1 Imports	12,132	1.95%	12/31/13
	Foot Locker	3,574	0.58%	12/31/13
	GNC	1,173	0.19%	12/31/13
	JoAnn Etc	35,094	5.65%	12/31/13
	Coldstone Creamry	1,232	0.20%	12/31/13
	<i>Subtotal:</i>	186,162	29.98%	
Negotiating Letter of Intent:		0	0.00%	N/A
	<i>Subtotal:</i>	0	0.00%	N/A
III. Remaining Leaseable Space				
Miscellaneous Retailers		105,564	17.00%	N/A
Total Development:		621,000	100.00%	

IV. TRUSTEE ACCOUNTS

The trustee for the Series 2001A Bonds is J.P. Morgan Trust Company, National Association. The balance as of March 31, 2004, interest paid, disbursements, special assessment collections, additional proceeds, and account balances for each fund, as of June 30, 2005, are shown by the following table:

Table IV-1

	03/31/04 Balance	Interest Paid	Additional Proceeds	Disbursements	06/30/05 Balance
Project Fund	\$58,393	\$351	\$37,978	\$96,656	\$66
Senior Capitalized Interest	\$1,471,329	\$79,686	\$2,245,898	\$1,741,456	\$2,055,467
Subordinate Capitalized Interest	\$12,919	\$63	\$0	\$12,981	\$2
Administrative Expense	\$119,125	\$704	\$11,014	\$130,843	\$0
Replacem't & Improvem't Fund	\$62,530	\$1,015	\$0	\$209	\$63,336
REV Fund Service Payment	\$775,016	\$21,125	\$2,411,096	\$3,195,236	\$12,000
Senior Interest Account	\$101,302	\$1,459	\$5,082,101	\$5,184,670	\$192
Subordinate Interest Account	\$0	\$0	\$18,000	\$18,000	\$0
Reserve Fund	\$3,633,450	\$309,340	\$0	\$206,413	\$3,736,377
TOTAL:	\$6,234,063	\$413,744	\$9,806,087	\$10,586,452	\$5,867,441

The additional proceeds to the project fund were transfers of interest income from the senior capitalized interest account. The additional proceeds to the senior capitalized interest account were transfers of service payments from the revenue fund service payment account to reimburse the senior capitalized interest account for the payment of debt service that should have been made with service payments previously collected. The additional proceeds to the administrative expense fund were transfers of service payments collected by the county to fund administrative expenses. The additional proceeds to the revenue fund service payment account were the receipt of service payment revenues collected by the county. The additional proceeds to the senior interest account were transfers of bond proceeds from the senior capitalized interest account, service payments from the revenue fund service payment account and interest income from the reserve fund to pay debt service on the bonds. The additional proceeds to the subordinate interest account were transfers of bond proceeds from the subordinate capitalized interest account and service payments from the revenue fund service payment account to pay debt service on the subordinate bonds. The disbursements from the project fund were for the costs of the public improvements.

Table IV-2 below shows the approximate rate of return on the investments. Most of the bond proceeds are invested in a Bayerische Landesbank Repurchase Agreement (REPO). Bond proceeds not invested in a REPO are invested in U.S. Treasury money market accounts currently earning approximately 3.04 percent.

During the construction period, investment income on the reserve fund will be applied to the construction account of the project fund. Afterwards, investment income on the reserve fund will be applied first to the senior interest account and then to the senior principal account in the senior bond fund to be credited against the next succeeding transfer from the revenue fund. Investment income on the senior and subordinate capitalized interest accounts will be transferred to the construction account of the project fund. Investment income on the replacement and improvement fund will remain in the fund and will be used for the purposes of such fund. Investment income on the administrative expense fund will remain in the fund and will be used to pay administrative expenses. Investment income on the project fund will remain in the fund unless an authorized officer certifies that amounts then on deposit are not expected to be expended, at which time surplus proceeds will be transferred to the senior bond fund to redeem principle or pay interest on the bonds. Investment income on the cost of issuance account will remain in the account until it is closed, which took place in May 2002, when the remaining balance was transferred to the project fund.

Table IV-2

Account	Rate of Return
Project Fund	3.04%
Senior Capitalized Interest	3.04%
Subordinate Capitalized Interest	3.04%
Rev Fund Service Payment	3.04%
Replacement & Improvement Fund	3.04%
Senior Interest Account	3.04%
Reserve Fund	5.66%

V. DISTRICT OPERATIONS

A. ANNUAL SPECIAL ASSESSMENT AS ABATED

The Cleveland-Cuyahoga County Port Authority issued \$40,500,000 of senior special assessment/tax increment revenue bonds in December 2001 related to the University Height's Public Parking Garage Project. The bonds are to be repaid from service payments, which are payments in lieu of taxes (PILOTS), in an amount equal to the increase in real property taxes, and to the extent service payments are not sufficient, special assessments levied on the taxable property in the University Height's Special Assessment District.

An annual assessment equal to \$4,000,000 has been levied each fiscal year for thirty years pursuant to Ordinance Number 2001-66, dated as of September 4, 2001, Resolution Number 2001-64 and a petition filed by the property owners, dated as of September 4, 2001. The annual assessment is to be abated such that the amount actually collected is the amount required to pay annual debt service and other expenses, after taking into consideration service payments and other funds available for that purpose.

(i.) Annual Required Installment

Annual special assessments have been levied in thirty annual consecutive installments of \$4,000,000 each, commencing not later than Calendar Year 2004, and abated to such an amount sufficient to pay the annual required installment each year. The annual required installment is defined in Section 13.02(c) of the Trust Indenture as "aggregate period debt service and administrative requirements, less total available assets." Aggregate period debt service and the administrative requirement is substantially defined as (i.) total debt service charges due and payable with respect to the Senior Bonds on December 1 following the calculation date (i.e., August 20th of each year), plus (ii.) total debt service charges due and payable on the Senior Bonds during the next calendar year, plus (iii.) total administrative expenses estimated by the Administrator to be due and payable from the calculation date through December 31st of the next calendar year together with any other administrative expenses that may be due and have not been paid at the time such amounts are certified by the Administrator, plus (iv.) any amounts required to replenish any deficiency in the Reserve Requirement at the time such amounts are certified by the Administrator, plus (v.) any fees or costs attributable to the provision of a letter of credit or insurance policy to fund all or a portion of the Reserve Requirement, plus (vi.) an amount equal to 3 percent of the amount described in clause (ii) of this definition.

Total available assets is substantially defined as the sum of (i.) the value of the amounts held in the Bond Fund, Revenue Fund, Administrative Expense Fund, Surplus Fund, and the Senior Capitalized Interest & Subordinate Capitalized Interest Accounts of the Project Fund, on the calculation date, plus (ii.) the estimated service payments to be received between the calculation date and November 30th of the following year, plus (iii.) the amount of any assessment payments to be made from the calculation date through November 30th of the calendar year in which the calculation is made, plus (iv.) investment income earned on bond proceeds in the Reserve Fund from the calculation date through November 30th of the succeeding calendar year, plus (v.) any additional revenues, other than those previously mentioned, that are identified by the Issuer to be available, less (vi.) any amounts estimated by the Administrator to be payable to the Cleveland Heights-University

Heights City School District pursuant to the trust indenture for the bonds, and (vii.) any debt service charges to be paid on the Subordinate Bonds.

Table V-1 provides a summary of the annual required installment for the 2006 fiscal year. Total available assets will be sufficient to pay aggregate period debt service and the administrative requirement. Accordingly, the annual required installment for the 2006 taxable year is zero and annual special assessments will be fully abated for this year. Each of these numbers is explained in the following sections.

(ii.) Aggregate Period Debt Service and Administrative Requirements

Debt Service on the Senior Bonds

Debt service on the Senior Bonds includes interest payments of \$1,469,221.25 due on December 1, 2005, June 1, 2006 and December 1, 2006. These payments equal interest on the outstanding principal amounts of \$10,945,000 and \$29,555,000 for six months at an annual interest rate of 7.0% and 7.35%, respectively. There are no principal payments due on December 1, 2005 and December 1, 2006. As a result, total debt service on the Senior Bonds is \$4,407,663.75.

Port Authority Fee

The annual fee of the Port Authority is equal to 0.25% of the principal amount of the bonds outstanding. The amount of bonds outstanding is \$40,500,000. As a result, the annual fee of the Port Authority for fiscal years 2005 and 2006 is equal to \$101,250, resulting in total fees due to the Port Authority through December 31, 2006 of \$202,500.

Administrative Expenses

Administrative expenses (other than the fee to the Port Authority) include the trustee and the administrator. The annual charges of the trustee are estimated to be \$5,000. The fees and expenses of the administrator are estimated to be \$10,000, plus an additional \$1,250 for arbitrage rebate services. Accordingly, total administrative expenses for fiscal year 2006 are estimated to be \$16,250.

The budget for administrative expenses (other than the fee to the Port Authority) for fiscal year 2005 was \$16,250. As of June 30, 2005, \$8,750 in administrative expenses had been paid, resulting in a balance of \$7,500 that will need to be funded in fiscal year 2006. According to the trustee and the Port Authority, there are no additional outstanding invoices from fiscal year 2005 that must be funded in fiscal year 2006. Accordingly, aggregate administrative expenses for fiscal years 2005 and 2006 are estimated to be \$23,750.

Contingency

A contingency equal to three percent of annual debt service on the Senior Bonds due in 2005 is included as required by the definition of Aggregate Period Debt Service and Administrative Requirements.

Table V-1
Annual Required Installment

<i>Aggregate Period Debt Service and Administrative Requirements</i>	
Interest on Senior Bonds, December 1, 2005	\$1,469,221
Principal on Senior Bonds, December 1, 2005	\$0
Interest on Senior Bonds, June 1, 2006	\$1,469,221
Interest on Senior Bonds, December 1, 2006	\$1,469,221
Principal on Senior Bonds, December 1, 2006	\$0
<i>Sub-total debt service</i>	\$4,407,664
Port Authority Fee	\$202,500
Administrative Expenses	\$23,750
Contingency	\$88,153
<i>Total aggregate period debt service and administrative requirements</i>	\$4,722,066
<i>Total Available Assets</i>	
Senior interest account	(\$100,819)
Revenue fund service payment account	(\$1,886,667)
Administrative expense fund	(\$0)
Surplus fund service payment account	(\$0)
Surplus fund assessment account	(\$0)
Senior capitalized interest account	(\$2,055,467)
Subordinate capitalized interest account	(\$2)
Less: Debt service charges on the subordinate bonds	\$18,000
Estimated service payments	(\$2,332,056)
Service payments to be collected in 2005	(\$802,850)
Less: refund due to parcel 721-01-003	\$509,398
Less: 2002 refund due to parcel 721-01-002	\$286,617
Less: 2003 refund due to parcel 721-01-002	\$336,061
Less: 2004 refund due to parcel 721-01-002	\$348,228
Reserve fund interest income	(\$308,479)
<i>Total available assets</i>	(\$5,988,037)
Annual Required Installment	\$0

(iii.) Total Available Assets

Senior Interest Account

As of July 31, 2005, the balance in the senior interest account was \$100,819.18. These funds will be used to pay a portion of the debt service on the senior bonds in the amount of \$1,469,221.25

on December 1, 2005.

Revenue Fund Service Payment Account

As of July 31, 2005, the balance in the revenue fund service payment account was \$12,000.40. On August 9, 2005, the City of University Heights transferred \$1,874,667.29 in service payments to the revenue fund service payment account held by the trustee. As a result, the balance in the revenue fund service payment account is \$1,886,667.29. These funds will be used to pay the debt service payment of \$1,469,221.25 due on the senior bonds on December 1, 2005.

Administrative Expense Fund

As of July 31, 2005, the balance in the administrative expense fund was zero. As a result, there are no funds available in the administrative expense fund to pay administrative expenses or the port authority fee in the amount of \$101,250.00 on December 31, 2005.

Surplus Fund Service Payment Account

As of July 31, 2005, the balance in the surplus fund service payment account was zero. As a result, there are no funds available in the surplus fund service payment account to pay the annual special assessment for 2006.

Surplus Fund Assessment Account

As of July 31, 2004, the balance in the surplus fund assessment account was zero. As a result, there are no funds available in the surplus fund assessment account to pay the annual special assessment for 2005.

Senior Capitalized Interest

As of July 31, 2005, the balance in the senior capitalized interest account was \$2,055,467.46. These funds may be made available to pay a portion of the debt service due on the senior bonds in the amount of \$1,469,221.25 on June 1, 2006 and the debt service due on the senior bonds in the amount of \$1,469,221.25 on December 1, 2006.

Subordinate Bonds

Debt service on the subordinate bonds includes interest payments of \$6,000 due on December 1, 2005, June 1, 2006 and December 1, 2006. These payments equal interest on the outstanding principal amount of \$100,000 for six months at an annual interest rate of 12.0%. There are no principal payments due on December 1, 2005 and December 1, 2006. As a result, total debt service on the Subordinate Bonds is \$18,000.

The balance in the subordinate capitalized interest account as of July 31, 2005 was \$2. These funds will be made available to pay a portion of the debt service on the subordinate bonds due on December 1, 2005.

Estimated Service Payments

Pursuant to Ordinance Number 2001-28, dated as of April 16, 2001, the improvements to the property within the district are exempt from real property taxation for a period of thirty years. However, according to the terms of the TIF Agreement, dated April 30, 2001, the developer has agreed to make service payments, together with all interest and penalties thereon for nonpayment of such service payments, for a period of thirty years in lieu of said exempt taxes, and the service payments shall be in an amount equal to the taxes that would have been levied had the improvements not been exempt from taxation.

The definition of Total Available Assets provides for service payments to be estimated based on “the most current value of properties as estimated by the Cuyahoga County Auditor as of the Calculation Date.” By the first day of October of the year prior to taxes being collected, the county auditor must prepare the final tax list, which assigns the true value of the parcels within the special assessment district. The estimated true value of the taxable property in the district as of January 1, 2004, which is the value calculated by the first day of the previous first of October (October 1, 2003), is \$68,007,800. This value is used as “the most current value” for purposes of estimating the service payments.

The true value of the taxable property in the special assessment district for the base year was equal to \$5,092,910. The incremental assessed value is, therefore, estimated to equal \$62,914,890 (\$68,007,800 - \$5,092,910 = \$62,914,890). Taxable property in Ohio is assessed at a rate of 35 percent of true value, resulting in an assessed value of \$22,020,211.50 on the incremental value, as shown in the table below.

Table V-2
Estimated Service Payments
Collected in 2005

Estimated True Value @ 01/01/04	\$68,007,800
Base Year True Value	\$5,092,910
Incremental Value	\$62,914,890
Assessed Value @ 35% of True Value	\$22,020,212
Real Property Tax Rate per \$1000 of Assessed Value	105.905256 mils
Estimated Service Payments	\$2,332,056

According to the County Auditor’s Office, the real property tax rate for Cleveland-Cuyahoga County in fiscal year 2005 is estimated to be 105.905256 mils per \$1,000 of assessed value. Accordingly, and as shown in the table above, based on the 35 percent assessment of the incremental true value of the taxable property in the district and the real property tax rate, service payment revenues are estimated to be equal to \$2,332,056.14 for fiscal year 2005.

Service Payments Collected in Prior Year

According to the Cuyahoga County Auditor’s Office, service payments collected in 2005 are estimated to be \$2,902,689.58. This includes only the first half service payment on parcel 721-01-003

(the Parking Garage parcel). As of August 30, 2006, the Cuyahoga County Auditor's Office reported that \$1,874,667.29 in service payments had been collected and disbursed to the City of University Heights. The county anticipates transferring to the city the estimated second half service payments in the amount of \$1,028,022.29, which were due on July 7, 2005, in the near future. On August 9, 2005, the City of University Heights transferred \$1,874,667.29 in first half service payments to the revenue fund service payment account held by the trustee. The city will retain \$225,172.44 in second half service payments to fund their budget for fiscal year 2004. The city anticipates reimbursing the district at a later time. As a result, these funds are excluded from the second half service payments collected in 2005. Accordingly, service payments collected in 2005, less the amounts retained by the city and previously transferred to the trustee, are estimated to be \$802,849.85 ($\$2,902,689.58 - (\$1,874,667.29 + \$225,172.44) = \$802,849.85$).

On December 27, 2002, Starwood Wasserman University Heights Holding, LLC filed an application for a real property tax exemption on the parking garage parcel (PIN 721-01-003) with the State of Ohio for the tax years 2001 and 2002. On the same date, University Square Parking, LLC filed an application for a real property tax exemption on the parking garage parcel with the State of Ohio for the tax years 2002, 2003 and beyond. These applications are based upon the fact that the parking garage parcel is owned by the Cleveland Cuyahoga County Port Authority, an entity whose property is tax exempt. On December 14, 2004, the Ohio Department of Taxation denied the first application because property for which an applicant seeks exemption from real property taxation must have been owned by the applicant and used for an exempt purpose as of the tax lien date, January 1st, in the year in which exemption is sought. Since the applicant did not acquire title to the property or the property was not used for an exempt purpose until March 29, 2002, the Ohio Department of Taxation denied the application for the 2002 tax year. As of August 29, 2005, the second application was still pending, however, we anticipate that the application will be approved for the 2003 and subsequent tax years. As a result, service payments equal to \$509,397.56 (\$106,660.93 for the 2003 tax year and \$402,901.72 for the first half of the 2004 tax year) will be refunded to the property owner when the application is approved. (Service payments were not collected for the 2001 tax year.)

According to the Cuyahoga County Board of Revision, a decision has been reached on the challenge to the valuation of real property that was filed for tax years 2002 and 2003 on parcel 721-01-002, which is owned by the May Company Department Stores. The Board of Revision found that the true value of the property for the 2002 and 2003 tax years was equal to \$15,000,000, which is a reduction of \$8,000,000 and \$9,394,600 in the true value for the 2002 and 2003 tax years, respectively. As a result, the assessed value of parcel 721-01-002 for the 2002 and 2003 tax years is equal to \$5,250,000 each year. Accordingly, service payments from 2002 and 2003 will be reduced in an amount equal to the estimated refund for the overpayment in the 2002 and 2003 tax years on parcel 721-01-002 of \$286,617.00 and \$336,060.53, respectively.

Service payments for the 2004 tax year were likewise based on an inaccurate true value of \$24,394,600 instead of \$15,000,000 for parcel 721-01-002. As a result, service payments from 2004 will be reduced in an amount equal to the estimated refund for the overpayment in the 2004 tax year on parcel 721-01-002 of \$348,228.13.

Reserve Fund Income

According to Section 5.05 of the Trust Indenture, investment income earned on the reserve fund prior to the earlier of the completion date or December 1, 2004 shall be transferred when earned to the construction account of the project fund. According to the developer, construction is complete on the parking garage structure and the developer has submitted documents certifying that construction is complete, which has authorized the transfer of interest income from the reserve fund to the senior interest account to pay debt service. As a result, interest income earned on the reserve fund is assumed to be available to pay the annual required installment for 2006.

As of July 31, 2004, the balance in the reserve fund was \$3,633,442.00. Bond proceeds in the amount of \$3,633,442.00 are invested in a Bayerische Landesbank Repurchase Agreement (REPO) earning 5.66 percent per annum and maturing on December 1, 2031. Interest is paid semi-annually in November and May of each year. As a result, \$308,479.23 in interest income is estimated to be earned on the reserve fund and made available to pay debt service on the bonds through December 1, 2006.

Summary

Aggregate period debt service and administrative expenses are estimated to be equal to \$4,722,066. Total available assets are estimated to be equal to \$5,988,037, resulting in an estimated surplus of \$1,265,970. As a result, special assessments to be collected in 2006 will be fully abated.

B. SPECIAL ASSESSMENTS LEVIED AND COLLECTED

Special assessments were fully abated for fiscal years 2003 through 2005. As a result, there are no delinquent special assessments for fiscal years 2003 through 2005.

C. DELINQUENT PROPERTY TAXES

According to the Cuyahoga County Auditor's Office, service payments collected in 2005 are estimated to be \$2,902,689.58, which is \$693,606.58 greater than what was estimated (\$2,209,083.00) in the annual assessment levy report. The difference in the amount of service payments estimated and collected is explained by the higher true values used by the county on parcels 721-01-002 and 721-01-003, which was discussed above. The county reports that as of August 9, 2005, \$1,874,667.29 in first half 2005 service payments were collected from property owners within the development site. The county anticipates transferring to the city the estimated second half service payments in the amount of \$1,028,022.29, which were due on July 7, 2005, sometime in November 2005. As a result, there are no delinquent service payments at this time.

D. COLLECTION EFFORTS

There are no delinquent ad valorem taxes at this time. As a result, there are no collection efforts underway at this time.

VI. DISTRICT FINANCIAL INFORMATION

The information provided in this section is to meet the requirements for the annual report as provided for in Section 2(a) of the Continuing Disclosure Agreement. The items listed below are in the same format and order as the items required for the annual report as listed in the Continuing Disclosure Agreement.

All information in this section is provided as of June 30, 2005, unless otherwise stated.

A. FUND BALANCES

The fund balances in all of the funds and accounts provided for in the Indenture of Trust are included in Table IV-1 of Section IV, "Trustee Accounts," of this report.

B. CHANGES TO THE RATE AND METHOD OF APPORTIONMENT

There have been no changes to the Rate and Method of Apportionment of the Service Payments or Special Assessments by the Port Authority since the bonds were issued.

C. CHANGES IN THE AD VALOREM TAX RATES

According to the county auditor's office the effective millage rate has increased from 102.204771 to 105.905256 per \$1,000.00 of assessed value for 2005.

D. CHANGES IN ASSESSED VALUE OF REAL PROPERTY

As of January 1, 2004, the assessed value of the property within the Development Site was \$68,007,800, which represents an increase of \$62,914,890 in the base year assessed value of \$5,092,910. The current use of each parcel, true value and assessed value of the property within the Development Site as of January 1, 2004, is shown in Table VI-1 below.

**Table VI-1
True and Assessed Values
As of January 1, 2003**

Parcel Number	Current Use	True Value	Assessed Value
721-01-001	Vacant land	\$34,298,500	\$12,004,475
721-01-002	Kaufman Dept Store	\$15,000,000	\$5,250,000
721-01-003	Parking Garage	\$0	\$0
721-01-004	Target Store	\$14,663,700	\$5,132,295
721-01-301	Vacant land	\$1,921,000	\$672,350
721-01-064	National City Bank	\$695,000	\$243,530
721-01-147	Medical Clinic & Offices	\$1,428,800	\$500,080
Total		\$68,007,800	\$23,802,730

E. DISTRICT FINANCING PAYMENTS LEVIED

Special assessments were fully abated in fiscal year 2005. As a result, there are no delinquent special assessments.

F. STATUS OF COLLECTION OF AD VALOREM AND FINANCING PAYMENTS

According to the Cuyahoga County Auditor's Office, property taxes are paid semi-annually and are due on January 20, 2005 and July 7, 2005. According to the Cuyahoga County Auditor's Office, service payments collected in 2005 are estimated to be \$2,902,689.58, which is \$693,606.58 greater than what was estimated (\$2,209,083.00) in the annual assessment levy report. The difference in the amount of service payments estimated and collected is explained by the higher true values used by the county on parcels 721-01-002 and 721-01-003, which is discussed below. The county reports that as of August 9, 2005, \$1,874,667.29 in first half 2005 service payments were collected from property owners within the development site. These service payments were transferred to the city and have subsequently been transferred to the trustee. The county anticipates transferring to the city the estimated second half service payments in the amount of \$1,028,022.29, which were due on July 7, 2005, sometime in November 2005. As a result, there are no delinquent service payments at this time.

G. ASSESSED VALUE APPEALS

On December 27, 2002, Starwood Wasserman University Heights Holding, LLC filed an application for a real property tax exemption on the parking garage parcel (PIN 721-01-003) with the State of Ohio for the tax years 2001 and 2002. On the same date, University Square Parking, LLC filed an application for a real property tax exemption on the parking garage parcel with the State of Ohio for the tax years 2002, 2003 and beyond. These applications are based upon the fact that the parking garage parcel is owned by the Cleveland Cuyahoga County Port Authority, an entity whose property is tax exempt. On December 14, 2004, the Ohio Department of Taxation denied the first application because property for which an applicant seeks exemption from real property taxation must have been owned by the applicant and used for an exempt purpose as of the tax lien date, January 1st, in the year in which exemption is sought. Since the applicant did not acquire title to the property or the property was not used for an exempt purpose until March 29, 2002, the Ohio Department of Taxation denied the application for the 2002 tax year. As of August 29, 2005, the second application was still pending, however, we anticipate that the application will be approved for the 2003 and subsequent tax years.

According to the Cuyahoga County Board of Revision, a decision has been reached on the challenge to the valuation of real property that was filed for tax years 2002 and 2003 on parcel 721-01-002, which is owned by the May Company Department Stores. The Board of Revision found that the true value of the property for the 2002 and 2003 tax years was equal to \$15,000,000, which is a reduction of \$8,000,000 and \$9,394,600 in the true value for the 2002 and 2003 tax years, respectively. As a result, the assessed value of parcel 721-01-002 for the 2002 and 2003 tax years was equal to \$5,250,000 each year.

H. PROPERTY OWNERSHIP

Transfer of title for the Target and Kaufmann's Department Stores took place on March 26, 2002. As a result, the current owners of the property within the development site is the developer, Starwood Wasserman University Heights Holding, LLC, Target and Kaufmann's. Starwood Wasserman reports that the development was sold to Inland Western University Heights University Square, LLC on May 2, 2005. The agent for the new owner is Inland US Management, LLC.

I. LAND USE AMMENDMENTS

The developer reports that as of June 30, 2005, there have been no significant amendments to land use entitlements or legal challenges to the construction of the project.

J. CHANGES TO PROJECT AND DEVELOPMENT STATUS

The developer reports that as of June 30, 2005, no changes have been approved by the Port Authority relating to the status of development of the project to be constructed from those stated in the Cooperative Agreement.

VII. SIGNIFICANT EVENTS

A. DEVELOPER'S SIGNIFICANT EVENTS

According to the continuing disclosure agreement, developer significant events include the following:

- (i) material damage to or destruction of any development or improvements within the development site;
- (ii) the exercise of an option to purchase or sell any land within the development site by the developer;
- (iii) material default by the developer or any affiliate thereof on any loan with respect to the construction or permanent financing of the development or the project;
- (iv) material default by the developer or any affiliate thereof on any loan secured by property within the development site owned by the developer or any affiliate of the developer;
- (v) payment default by the developer or any affiliate thereof on any loan to such party (whether or not such loan is secured by the property within the development site);
- (vi) the filing by or against the developer or any affiliate thereof, the general partner of the developer or any owners of more than 25% interest in the developer of any petition or other proceeding under any bankruptcy, insolvency or similar law or any determination that the developer or an owner of interest in the developer or a subsidiary of the developer or any affiliate thereof is unable to pay its debts as they become due; and
- (vii) the filing of any lawsuit with claim for damages in excess of \$1,000,000 against the developer which may adversely affect the completion of the development, the project or the sale or development of the development site or litigation in excess of \$1,000,000 which would materially adversely affect the financial condition of the developer.

Inquiries have been made with Starwood Wasserman University Heights Holding, LLC regarding the occurrence of any significant event and they have reported that no significant events have occurred as of June 30, 2005.

B. LISTED EVENTS

Pursuant to the Continuing Disclosure Agreement, listed events include the following:

- (i) delinquency in payment when due of any principal of or interest on the bonds;
- (ii) occurrence of any material default under the indenture (other than described in

- clause (i) above);
- (iii) draws on the reserve fund;
 - (iv) substitution of a credit provider for cash deposits in the reserve fund, or their failure to perform;
 - (v) adverse tax opinions or events affecting the tax exempt status of the bonds;
 - (vi) amendment to the indenture modifying the rights of the bondholders;
 - (vii) giving of notice of optional or unscheduled redemption of bonds;
 - (viii) defeasance of bonds or any portion thereof;
 - (ix) the release or substitution of property securing repayment of the bonds;
 - (x) any change in the rating, if any, on the bonds;
 - (xi) the continuing disclosure event notices provided to the administrator by the developer as more particularly set forth in the developer's continuing disclosure agreement so long as the developer owns property in the district.

The administrator is not aware of the occurrence of any listed event as of the date of this report (November 4, 2005).