DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2003 and 2002

Auditor of State
Betty Montgomery

Board of Directors
Dayton-Montgomery County Port Authority
900 Kettering Tower
Dayton, Ohio 45423

We have reviewed the Independent Auditor's Report of the Dayton-Montgomery County Port Authority, Montgomery County, prepared by Bastin & Company, LLC, for the audit period January 1, 2002 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 8, 2004

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY

TABLE OF CONTENTS

Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Directors
Dayton-Montgomery County Port Authority
Dayton, Ohio:

We have audited the accompanying financial statements of the Dayton-Montgomery County Port Authority (Authority), Dayton, Ohio, as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dayton-Montgomery County Port Authority, as of December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Authority has adopted the accrual basis of accounting that is in accordance with accounting principles generally accepted in the United States of America as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2004 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Bastin & Company, LLC

Cincinnati, Ohio
June 19, 2004

4424 Aicholtz Road, Suite D, Cincinnati, Ohio 45245-1561, Telephone/Fax (513) 753-3999

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY
BALANCE SHEETS
December 31, 2003 and 2002

ASSETS

	2003	2002
CURRENT ASSETS:		
Cash, cash equivalents and investments	$ 1,477,064	$ 13,462
Total current assets	1,477,064	13,462
LAND, FACILITIES AND EQUIPMENT:		
Land and land improvements	8,431,500	3,558,000
Buildings and improvements	7,203,877	7,203,877
Office equipment	5,483	5,483
Total	15,640,860	10,767,360
Less: accumulated depreciation	(320,652)	(138,271)
Net, land, facilities and equipment	15,320,208	10,629,089
RESTRICTED AND OTHER ASSETS:		
Restricted cash, cash equivalents and investments	8,564,227	5,919,431
Financing leases receivable - Relizon	12,965,333	13,448,000
Financing leases receivable - MCSi	-	9,285,000
Financing leases receivable - Burrows	9,000,000	-
Debt issuance costs	1,050,482	1,139,186
Other assets	69,293	123,309
Total restricted and other assets	31,649,335	29,914,926
TOTAL ASSETS	$48,446,607	$40,557,477

(Continued)

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY
BALANCE SHEETS
December 31, 2003 and 2002
(Continued)

LIABILITIES AND EQUITY

	2003	2002
CURRENT LIABILITIES:		
Current portion of long-term debt:		
Relizon project Taxable State Loan Revenue Note	$ 302,667	$ 302,667
Relizon project Taxable Project Revenue Bonds	180,000	180,000
MCSi project Development Mortgage Revenue Bonds Series B	-	4,000,000
MCSi project Development Mortgage Revenue Bonds Series A	-	145,000
Burrows project DOD Taxable State Loan	220,000	-
Austin Center project Development Mortgage Revenue Bond Anticipation Note	2,925,000	-
Relizon parking garage Mortgage Revenue Bonds	105,000	100,000
Relizon parking garage Bond Anticipation Note	2,000,000	2,000,000
Total current liabilities	5,732,667	6,727,667
OTHER LIABILITIES – including amounts related to restricted assets:		
Revenue bonds and notes:		
Relizon project Taxable State Loan Revenue Note	$5,707,667	$6,010,333
Relizon project Taxable Project Revenue Bonds	6,775,000	6,955,000
MCSi project Taxable Project Development Mortgage Revenue Bonds Series A	-	5,140,000
Burrows project DOD Taxable State Loan	8,780,000	-
Relizon parking garage Mortgage Revenue Bonds	3,020,000	3,125,000
Austin Center project Montgomery County TID Loan	2,475,000	-
Bond Fund Program Loan	1,000,000	-
Leased project construction costs payable	3,060,000	789,924
Refundable deposits	7,478	7,478
Total other liabilities	30,825,145	22,027,735
TOTAL LIABILITIES	36,557,812	28,755,402
FUND EQUITY:		
Retained earnings, Restricted	5,000,000	5,000,000
Retained earnings, Unrestricted	6,888,795	6,802,075
TOTAL EQUITY	$11,888,795	$11,802,075
TOTAL LIABILITIES AND EQUITY	$48,446,607	$40,557,477

See notes to the financial statements.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
for the years ended December 31, 2003 and 2002

	2003	2002
OPERATING REVENUES:		
Port fees	$ 47,862	$ 27,855
Property financing leases	1,453,080	491,960
Parking garage fees	40,230	41,010
Restaurant fees	5,542	15,723
Construction management fees	75,460	-
Operating grants	75,000	200,000
Other revenues	38,245	11,593
Total operating revenues	1,735,419	788,141
OPERATING EXPENSES:		
Operating expenses	103,548	86,126
Professional services	348,572	578,946
Relocation incentives	100,000	100,000
Payments in lieu of real estate taxes	187,372	287,982
Depreciation and amortization	206,895	198,857
Total operating expenses	946,387	1,251,911
OPERATING INCOME (LOSS)	789,032	(463,770)
NONOPERATING REVENUES (EXPENSES):		
Bond fund program reserve grant	1,000,000	-
Interest income	74,884	218,515
Loss on lease due to lessee bankruptcy	(624,340)	-
Interest and fiscal charges	(1,152,856)	(475,069)
Total nonoperating revenues (expenses)	(702,312)	(256,554)
NET INCOME	86,720	(720,324)
RETAINED EARNINGS - BEGINNING OF YEAR	11,802,075	12,522,399
RETAINED EARNINGS - END OF YEAR	$11,888,795	$11,802,075

See notes to the financial statements.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Cash received from customers	$1,735,419	$ 788,141
Cash payments to suppliers for goods and services	(739,492)	(1,053,054)
Net cash provided by (used for) operating activities	995,927	(264,913)
Cash flows from capital related activities:		
Proceeds from bond anticipation notes (Parking Garage Project)	2,000,000	-
Proceeds from taxable state loan (Burrows Project)	9,000,000	-
Proceeds from bond anticipation notes (Austin Center Project)	2,925,000	-
Proceeds from Montgomery County TID loan (Austin Center Project)	2,475,000	-
Proceeds from ODOD Bond fund program (loan portion)	1,000,000	-
Proceeds from ODOD Bond fund program (grant portion)	1,000,000	-
Retirement of revenue bonds (Parking Garage Project)	(100,000)	-
Retirement of bond anticipation note (Parking Garage Project)	(2,000,000)	-
Retirement of state loan revenue note (Relizon Project)	(302,666)	(227,000)
Retirement of revenue bonds (Relizon Project)	(180,000)	(115,000)
Retirement of revenue bonds (MCSi Project)	(145,000)	-
Interest paid on debt	(1,152,855)	(475,069)
Cash transferred to bank due to MCSi Bankruptcy	(131,339)	-
Financing leases principal payments received	482,667	342,000
Debt issuance costs paid	(229,795)	(15,000)
Restaurant deposits received	-	7,478
Construction of leased assets	(6,729,925)	(11,297,979)
Construction of fixed asset	-	(1,577,160)
Land purchase	(4,873,500)	-
Net cash provided by (used for) capital financing activities	3,037,587	(13,357,730)
Cash flows from non-capital financing activities:		
Investment purchases	(2,003,520)	-
Interest received	66,700	218,515
Net cash provided by (used for) non-capital financing activities	(1,936,820)	218,515
Net increase (decrease) in cash and cash equivalents	2,096,694	(13,404,128)
Cash and cash equivalents at beginning of year	5,932,893	19,337,021
Cash and cash equivalents at end of year	$8,029,587	$ 5,932,893
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ 789,032	(463,770)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	206,895	198,857
Net cash provided by operating activities	$ 995,927	$ (264,913)
Non-Cash Transactions:		
Assets removed due to lessee bankruptcy	$9,764,340	$ -
Liabilities removed due to lessee bankruptcy	(9,140,000)	-
Net increase in fair value of investments	8,184	-
Total non-cash transactions	$ 632,524	$ -

See notes to the financial statements.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Dayton-Montgomery County Port Authority, Montgomery County, (the Port Authority) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Port Authority was established in January 2000 pursuant to section 4582.22 of the Ohio Rev. Code by resolution of Montgomery County and by ordinance of the City of Dayton. A nine-member Board of Directors directs the Port Authority. Five of the Directors are appointed by the Montgomery County Commissioners and four are appointed by the Mayor of the City of Dayton, with the advice and consent of the Dayton City Council.

The Port Authority provides services that are enumerated in Sections 4582.21 to 4582.59 of the Ohio Revised Code. These services include but are not limited to the power to purchase, construct, re-construct, enlarge, improve, equip, develop, sell, exchange, lease, convey other interest in, and operate Port Authority facilities.

The Port Authority employed a consultant as its President and Executive Director. Effective April 1, 2004, the consultant became an employee of the Authority. The Port Authority has also contracted an accountant and a bond fund advisor. The Port Authority also contracts for services, office space and support from the Dayton Development Coalition, a private local entity.

The Port Authority's management believes these financial statements present all activities for which the Port Authority is financially accountable. The Port Authority is not financially accountable for any other organization, nor is any other organization accountable for the Port Authority.

Basis of Accounting

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

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

Investments

The Authority's investments (including cash equivalents) are recorded at fair value. Money market and mutual funds are recorded at share values reported by the mutual fund.

Statements of Cash Flows

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments with maturities of less than three months (including restricted assets) to be cash equivalents.

Fixed Assets and Depreciation

Fixed assets include property, plant, and equipment. Fixed assets are defined as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of three years. Fixed assets are stated at historical cost. Donated fixed assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for fixed assets and improvements are capitalized as the projects are constructed and updated for the cost of additions and retirements during the year. Interest incurred during construction is capitalized until substantial completion of the project.

Depreciation is computed on the straight-line basis over the following estimated useful lives:

Description	Years
Buildings and improvements	40
Office equipment	3

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. The liabilities that relate to the restricted assets are included in other liabilities in the accompanying balance sheets.

Financing Leases Receivable

The Authority enters into various financing arrangements for the purpose of funding the construction of facilities that are leased to private and public companies. Financing lease agreements with the companies provide for leasing payments sufficient to fund the related debt issued by the Authority and other costs and expenses related to the project. The leases are non-cancelable until the underlying debt and any related charges are paid in full. Lease payments cover a minimum of the principal and interest payments on the debt as they become due. Lease arrangements allow the lessee an option to purchase the leased facility at the termination of the lease. All expenses related to the debt and the operation and maintenance of the leased facilities are the responsibility of the lessee. The Authority assumes no responsibility for the repayment of any of the debt issued for the construction of the leased facilities beyond the resources provided by the underlying lease. All lease payments and debt retirement payments are administered and flow through the accounts of the Authority and are recognized in the accompanying statements.

Debt Issuance Costs

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

Budgetary Accounting and Control

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

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from charges for services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Authority. Revenues that do not meet these criteria are considered non-operating and reported as such.

Retained Earning - Restricted

The Authority received a $5,000,000 grant through the Ohio Department of Development for the purpose of creating the bond reserve to increase the debt capacity of the Authority. Due to the nature of the grant terms, the resulting amount of retained earnings is considered restricted for the bond reserve program.

Estimates

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

2. CHANGE IN BASIS OF ACCOUNTING

In prior years, the Authority prepared its financial statements using the cash basis of accounting. In 2002, the Authority adopted the accrual basis of accounting for its financial statements that is in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized as incurred. The previously reported balance of retained earnings, which represented cash balances as of December 31, 2001, has been restated to conform to the new accrual basis of accounting.

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. At December 31, 2003, the carrying amount of the Authority's deposits was $2,008,167 and the bank balance was $2,017,826, of which $265,056 was covered by federal depository insurance and $1,752,770 was uninsured and uncollateralized as defined by the GASB.

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

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

The Authority's investments are detailed below and are categorized in accordance with the criteria established by the GASB to indicate the level of credit risk assumed as of December 31, 2003. Category 1 includes investments that are insured or registered for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counter party’s trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counter party or by its trust department or agent but not in the Authority's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Fair Value
Categorized Investments:		
U.S. Treasury Bills	$2,011,704	$2,011,704
Money Market Funds	-	6,021,420
Total	$2,011,704	$8,033,124

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No.9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No.3 is as follows:

	Cash and Cash Equivalents	Investments
Cash, cash equivalents and investments	$ 1,477,064	$ -
Restricted cash, cash equivalents and investments	8,564,227	-
Total GASB Statement No. 9	10,041,291	-
Investments:		
U.S. Treasury Bills	(2,011,704)	2,011,704
Money Market Funds	(6,021,420)	6,021,420
GASB Statement No. 3	$ 2,008,167	$8,033,124

Money market funds are considered cash and cash equivalents for the purpose of the statement of cash flows.

4. FIXED ASSETS

The following summarizes the changes to fixed assets during 2003.

Class	Balance December 31, 2002	Additions	Deletions	Balance December 31, 2003
Fixed assets:				
Land	$ 3,558,000	$4,873,500	$ -	$ 8,431,500
Office equipment	5,483	-	-	5,483
Buildings	7,203,877	-	-	7,203,877
Total cost	$10,767,360	$ 4,873,500	$ -	$15,640,860
Accumulated depreciation				
Office equipment	$ (3,198)	$ (2,285)	$ -	$ (5,483)
Buildings	(135,073)	(180,096)	-	(315,169)
Accumulated depreciation	$ (138,271)	$(182,381)	$ -	$ (320,652)
Net value	$10,629,089			$ 15,320,208

5. PROJECTS

Relizon Company Headquarters Project

During 2001, the Authority financed the construction of a commercial office building for the headquarters of the Relizon Company. Land for the project was granted to the Authority by the City of Dayton with a value of $1,833,000. The Authority issued a $6,540,000 Taxable State Loan Revenue Note dated May 1, 2001 payable to the Ohio Department of Development and $7,250,000 of Taxable Project Development Revenue Bonds, Series 2001, dated May 18, 2001.

The Authority is to make principal payments on the Taxable State Loan Revenue Note in varying monthly amounts ranging from $25,222 beginning on April 1, 2002 to $28,473 on March 1, 2017. A balloon payment of $2,000,000 is also due on March 1, 2017. The note carries no interest through March 31, 2007. Effective April 1, 2007 the note carries a rate of 2.5 percent. The note is secured by the property and rental payments to be received under the lease with Relizon as well as a residual value insurance contract covering balloon payments due on the debt as discussed below.

The Authority is to make principal payments on the Taxable Project Development Revenue Bonds in varying monthly amounts ranging from $10,000 beginning on March 31, 2002 to $40,000 on January 31, 2017. A balloon payment of $3,000,000 is also due on March 1, 2017. The bonds bear an interest rate of 8.75 percent and are secured by the property and rental payments to be received under the lease with Relizon as well as a residual value insurance contract covering balloon payments due on the debt as discussed below.

The Authority entered into a lease agreement, dated May 18, 2001, with the Relizon Company for use of the office building facility. The timing and amount of payments due from Relizon under the lease are scheduled to meet the debt service requirements of the Authority and other costs and expenses incurred in connection with the project through March 1, 2017. The term of the lease provides for various options at the end of the lease including Relizon's option to purchase the property, the continuation of the lease with the refinancing of the $5,000,000 of balloon payments due on the related debts or the vacating of the property by Relizon. The Authority has acquired a residual value insurance policy to guarantee funding for balloon payment amounts when they become due should Relizon vacate the property at lease end.

The Authority accounts for the lease with Relizon as a financing lease. The term of the lease commenced on May 1, 2001 and expires, unless sooner terminated in accordance with the terms of the lease, on February 28, 2017.

The difference between the financing lease receivable and the total payments to be made by the lessee are being amortized over the term of the lease so as to produce a constant periodic rate of return on the Authority's investment in the lease. The future minimum lease payments to be received, including the proceeds from the residual value insurance contract, and the Authority's net investment in the lease are as follows:

Year	Amount
2004	$ 1,124,179
2005	1,106,981
2006	1,109,494
2007	1,195,561
2008	1,195,448
Thereafter	14,749,538
Total	20,481,201
Unearned income	(7,515,868)
Net investment in lease	$12,965,333

Patterson Street Parking Garage Facility Project

During 2001, the Authority financed the acquisition and construction of a parking garage facility located adjacent to the Relizon Company Headquarters Project. The Authority owns the parking facility.

Land for the project was granted to the Authority by the City of Dayton with a value of $1,725,000. The Authority issued $3,225,000 of Taxable Project Development Mortgage Revenue Bonds; Series 2001 dated May 18, 2001 payable to the City of Dayton and a $2,000,000 Project Development Revenue Bond Anticipation Note (BAN), Series 2001 dated May 16, 2001. The property and revenues to be received by the facility secure both.

Principal payments on the Taxable Project Development Mortgage Revenue Bonds, Series 2001 are due on December 1, in varying amounts ranging from $100,000 in 2003 to $270,000 in 2021. Interest at a rate of 5.81 percent is effective until November 30, 2003. Thereafter, the interest rate is variable and is reset on December 1, 2003 and every third year thereafter, based on the weighted average interest rate on all investments in the City of Dayton's investment portfolio on those dates. The effective rate on December 1, 2003 was calculated by the City of Dayton as 2.77 percent that is effective until December 1, 2006.

The 2001 BAN has been refunded on an annual basis and is currently consists of a Project Development Revenue Bond Anticipation Note (BAN), Series 2003 dated May 16, 2003. The BAN matures on May 14, 2004 and bears an interest rate of 1.85 percent.

MCSi Project

During 2001 and 2002, the Authority financed the acquisition of land, and construction of a corporate headquarters facility for MCSi, Inc (MCSi).

Construction costs were funded by the issuance of $9,285,000 Taxable Project Development Revenue Bonds, Series 2001. The Authority was to make principal payments on the Bonds in varying quarterly amounts ranging from $45,000 beginning on April 1, 2003 to $100,000 on October 1, 2012. A final payment of $2,390,000 is also due on December 1 2012. The bonds bear an interest rate of 4.43 percent and were secured by the property and rental payments to be received under the lease with MCSi, discussed below.

The Authority entered into a lease agreement, dated December 1, 2001, with MCSi for use of the office building facility. The timing and amount of payments due from MCSi under the lease are scheduled to meet the debt service requirements of the Authority plus applicable fees.

2002 REPORTING
As discussed below, during 2003, MCSi has declared bankruptcy and ceased operations. Prior to MCSi's bankruptcy, the Authority accounted for the lease with MCSi as a financing lease. The term of the lease commenced on December l, 2001 and was to expire on November 30, 2012. The Authority had granted MCSi the option to purchase all interests of the project upon termination of the lease in accordance with the terms of the lease agreement.

The difference between the financing lease receivable and the total payments to be made by the lessee was being amortized over the term of the lease so as to produce a constant periodic rate of return on the Authority's investment in the lease. As of December 31, 2002, the future minimum lease payments to be received and the Authority's net investment in the lease were as follows:

Year	Amount
2003	$ 927,680
2004	949,585
2005	938,378
2006	926,476
2007	913,809
2008	905,433
Thereafter	7,676,786
Total	13,238,147
Unearned income	(3,953,147)
Net investment in lease December 31, 2002	$9,285,000

2003 REPORTING

During 2003, MCSi made the initial 6 lease payments under the lease and the Authority made its initial debt service payment of $145,000 while accounting for the project as a financing lease. MCSi subsequently declared bankruptcy and ceased operations. During 2003 the bankruptcy court released MCSi from all liability under the lease.

Fifth Third Bank, holder of the secured debt, has no recourse against the Authority under the terms of the debt. The Authority has since conveyed all assets associated with the project to Fifth Third Bank.

Due to the MCSi bankruptcy, the Authority no longer has an enforceable lease with MCSi and is not obligated for repayment of the debt. As of December 31, 2003, the Authority has removed and has discontinued the reporting of all related assets and liabilities related to the project. A loss of $624,340 has been recorded by the Authority during 2003 as a result of the change in the project's status.

Burrows Paper Corporation Project

During 2003, the Authority financed the construction of a 275,000 square foot manufacturing building in Franklin, Ohio for the Burrows Paper Corporation. Construction costs were funded by proceeds of a $9,000,000 Ohio Department of Development; Taxable State Loan dated June 1, 2003. The Ohio Department of Development Loan was funded by the issuance of $9,000,000 State Economic Development Revenue Bonds, Ohio Enterprise Bond Fund (OEBF) Series 2003-4.

Principal payments on the Ohio Department of Development, Taxable State Loan are due quarterly in varying amounts ranging from $110,000 on September 1, 2004 to $225,000 due June 1, 2018 and bears interest at 5.35 percent. The Loan is secured by the rental payments to be received under the lease with Burrows Paper Corporation as discussed below.

The Port Authority has entered into a 15-year lease agreement, dated June 1, 2003, with Burrows Paper Corporation for use of the project facility. The lessee has the right to purchase the project prior to maturity for an amount equal to the outstanding OEBF amount. The lessee also has the right to purchase the project at the end of the lease for $100.

The Authority accounts for the lease with Burrows Paper Corporation as a financing lease. Payments commenced under the lease in July 15, 2003 and consist of interest and fees until June 15, 2004. Beginning June 15, 2004 and until the final lease payment scheduled for May 15, 2018, the timing and amount of payments due from the lessee are scheduled to meet the debt service requirements of the Authority for the Ohio Department of Development, Taxable State Loan plus administrative charges and port fees.

The difference between the financing lease receivable and the total payments to be made by the lessee are being amortized over the term of the lease so as to produce a constant periodic rate of return on the Authority's investment in the lease. The future minimum lease payments to be received and the Authority's net investment in the lease are as follows:

Year	Amount
2004	$ 755,675
2005	936,225
2006	938,565
2007	931,164
2008	934,066
Thereafter	8,726,076
Total	13,221,771
Unearned income	(4,221,771)
Net investment in lease	$9,000,000

Austin Center Project

On October 31, 2003 the Authority purchased land to assist in the addition of an interchange on U.S. Interstate Highway 75 at Austin Pike and in anticipation of creating a commercial/office building community at the Austin Pike interchange.

Acquisition costs were funded by the issuance of a $2,925,000 Development Mortgage Revenue Bond Anticipation Note dated October 31, 2003 and obtaining a $2,475,000 loan from Montgomery County Transportation Improvement District.

The Development Mortgage Revenue Bond Anticipation Note matures on May 1, 2006 and bears an interest rate of 6 percent. The Loan is secured by the acquired property.

The loan from Montgomery County Transportation Improvement District provided for the assignment of ED/GE program funds received by the Montgomery County Transportation Improvement District to the Authority. The terms of the assignment agreement provide for the Authority to repay the loan of the ED/GE funds based on a pro-rata share of proceeds derived from the future sale of the project's land.

6. PROJECT RELATED DEBT OBLIGATIONS

For the year ended December 31, 2003, changes in the Authority's project related debt consisted of the following:

Relizon project:	Interest Rate	Balance January 1, 2003	Additions	Payments and Deletions	Balance December 31, 2003	Amount Due Within One Year
Taxable State Loan Revenue Note	2.5%	$6,313,000	$ -	$(302,666)	$6,010,334	$ 302,667
Taxable Project Development Revenue Bonds, Series 2001	8.75%	7,135,000	-	(180,000)	6,955,000	180,000
Parking garage project:						
Taxable Project Development Mortgage Revenue Bonds, Series 2001	variable currently 2.77%	3,225,000	-	(100,000)	3,125,000	105,000
Project Development Revenue Bond Anticipation						
Note Series, 2002	1.85%	2,000,000	-	(2,000,000)	-	-
Note Series, 2003	1.85%	-	2,000,000	-	2,000,000	2,000,000
MCSi project:						
Taxable Project Development Mortgage Revenue Bonds, Series 2001	4.43%	9,285,000	-	(9,285,000) *	-	-
Burrows project:						
Ohio DOD Taxable State Loan	5.35%	-	9,000,000	-	9,000,000	220,000
Austin Center project:						
Development Mortgage Revenue Bond Anticipation Note	6.0%	-	2,925,000	-	2,925,000	2,925,000
Montgomery County TID Loan	0.0%	-	2,475,000	-	2,475,000	-
Total		$27,958,000	$16,400,000	$(11,867,666)	$32,490,334	$5,732,667

* The Authority made payments of $145,000 toward the principal balance prior to MCSi's bankruptcy. See Note 5.

Amortization of the above debt, including interest, is scheduled as follows (For variable rate obligations, the interest payment amounts are estimated. The retirement of the Austin Center TID loan is based upon future land sales):

	Relizon Project		Parking Garage Project	
Year ending December 31	Taxable State Loan Revenue Note	2001 Series Revenue Bonds	2001 Series Revenue Bonds	2003 Series BAN
2004	$ 302,667	$ 781,344	$ 191,563	$2,037,000
2005	302,667	765,594	193,654	-
2006	302,667	749,844	195,607	-
2007	369,958	773,073	197,422	-
2008	392,388	772,437	204,097	-
2009 - 2013	1,961,941	3,838,885	1,077,456	-
2014 - 2018	3,275,262	5,449,609	1,208,484	-
2019 - 2023	-	-	808,212	-
Total	$6,907,550	$13,130,786	$4,076,495	$2,037,000

	Burrows Project	Austin Center Project		
Year ending December 31	DOD State Loan	Austin Center BAN	Austin Center TID Loan	Total
2004	$ 700,029	$ -	$ -	$ 4,012,603
2005	915,702	-	-	2,177,617
2006	920,758	3,363,750	-	5,532,626
2007	914,409	-	-	2,254,862
2008	916,789	-	-	2,285,711
2009 -2013	4,587,412	-	-	11,465,694
2014 -2018	4,130,630	-	-	14,063,985
2019 -2023	-	-	2,475,000	3,283,212
Total	$13,085,729	$3,363,750	$2,475,000	$45,076,310

7. BOND FUND PROGRAM

The Authority has established a Bond Fund Program to provide long-term, fixed interest rate financing for qualified industrial, commercial and public projects. The primary objective of the Bond Fund program is to further economic development efforts through the retention and creation of quality, private-sector jobs. The Bond Fund Program is designed to increase the debt capacity of the Authority.

The State of Ohio Department of Development (ODOD) awarded the Authority a grant of $5,000,000 during 2000, to establish the Bond Fund Program. Amounts held in the Authority's Bond Fund Program Reserve, are included in restricted assets and as restricted retained earnings in the accompanying balance sheets due to the nature of the grant that restricts the use of the funds solely to the Bond Fund Program activities.

Under the Program, debt service requirements on each bond issue are to be secured by a pledge of amounts to be received under lease or loan agreements with borrowers who utilize the financed facilities. In addition, all borrowers are required to provide a letter of credit as additional security for the related bonds.

During 2003 the Authority obtained an additional $2,000,000 grant/loan from ODOD to further increase the funds of the Bond Fund Program. The terms of the grant/loan allow the Authority to use the funds for the Bond Fund Program and for any purpose approved by the Board for economic development purposes and therefore are reflected as non-restricted in the accompanying balance sheets.

The conditional grant/loan is for a 20-year term, with 25 percent of the interest earned on the fund remitted back to ODOD through December 2017. Beginning 2018 and continuing through December 2022, 100 percent of the interest earned is required to be remitted back to ODOD. In addition to the interest repayment requirements, the Authority is to make a $1,000,000 repayment of principal on December 31, 2022.

8. OPERATING GRANTS

During 2003 and 2002, the Authority received operating grants totaling $75,000 and $200,000, respectively, to be used for the general administration of the Authority.

9. NEW ACCOUNTING STANDARDS

The GASB has issued Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis: Omnibus,* and Statement No. 38, Certain Financial Statement Note Disclosures. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements are effective for the Authority's fiscal year ending December 31, 2004. The Authority has not completed an analysis of the impact of these statements on its reported financial condition and results of operations.

10. SUBSEQUENT EVENTS

On May 14, 2004 the Authority negotiated a four-month extension, subject to a call provision, on the $2,000,000 Project Development Revenue Bond Anticipation Note, Series 2003 related to the parking garage project. During July 2004 the Authority issued $2,300,000 of 20 year Project Development Revenue Bonds, Series 2004A, to fund appropriate reserves, pay the cost of issuance and refund the Bond Anticipation Note.

During July 2004 the Authority issued $5,100,000 of Development Mortgage Revenue Bonds, Series 2004B, to fund appropriate reserves, pay the cost of issuance and refund the Development Mortgage Revenue Bond Anticipation Note for the Austin Center project.

During May 2004 the terms of the $2,000,000 grant/loan from ODOD, that initially required various amounts of earned interest be returned to ODOD and a $1,000,000 repayment of principle, were renegotiated. Under the new terms of the agreement, the Authority is to make annual interest payments beginning December 2004 of $25,000 over the 20 years on the loan portion and a final repayment in 2024 totaling $1,500,000 representing the original $1,000,000 of loan principle and $500,000 in accumulated interest so long as the funds are not committed in the bond fund program reserve.

Bastin & Company, LLC
Certified Public Accountants

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

The Honorable Board of Directors
Dayton-Montgomery County Port Authority
Dayton, Ohio:

We have audited the financial statements of the Dayton-Montgomery County Port Authority as of and for the years ended December 31, 2003 and 2002, and have issued our reports thereon dated June 19, 2004. 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.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Bastin & Company, LLC

Cincinnati, Ohio
June 19, 2004

4424 Aicholtz Road, Suite D, Cincinnati, Ohio 45245-1561, Telephone/Fax (513) 753-3999

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 23, 2004