DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2007 and 2006

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Dayton-Montgomery County Port Authority, prepared by Bastin & Company, LLC, for the audit period January 1, 2007 through December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 27, 2009

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DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO

TABLE OF CONTENTS

Page

FINANCIAL STATEMENTS:

Independent Auditors' Report 1

Management's Discussion and Analysis 2

Statements of Net Assets 7

Statements of Revenues, Expenses and Changes in Net Assets 9

Statements of Cash Flows 10

Notes to Financial Statements 12

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* 31

Schedule of Findings 33

Bastin & Company, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Directors
Dayton-Montgomery County Port Authority

We have audited the accompanying financial statements of the Dayton-Montgomery County Port Authority, Montgomery County, Ohio, (Authority) as of and for the years ended December 31, 2007 and 2006, 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, 2007 and 2006 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 audit.

The management's discussion and analysis on pages 2 through 6 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 supplementary information. However, we did not audit the information and express no opinion on it.

Bastin & Company, LLC

Cincinnati, Ohio
December 15, 2008

4286 Mt. Carmel – Tobasco Road, Suite A, Cincinnati, Ohio 45244-2372, Telephone/Fax (513) 753-3999

As management of the Dayton-Montgomery County Port Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- During 2007, the Authority obtained financing and initiated construction of a $68.6 million, 300,000 square foot commercial office building for the corporate headquarters of the CareSource Management Group.

- During 2007, the Authority began construction of a $20.1 million, seven story parking garage in downtown Dayton to be owned and operated by the Authority. Funding for the project is being provided by a loan from the City of Dayton.

- During 2007, the Authority entered into option to purchase agreement with a developer for the Austin Center project intended to develop a commercial/office building community at the Austin Pike interchange.

- During 2007, the Authority received an additional operating grant of $1,576,000 for Phase II of the renovations to the University of Dayton’s Welcome Stadium.

- Total assets of the Authority exceeded its liabilities as of December 31, 2007 by $12,781,990, an increase of $1,264,438 from December 31, 2006.

- The Authority's restricted and unrestricted cash and investment balances at December 31, 2007 totaled $60.9 million, an increase of $52.2 million from December 31, 2006 primarily due to the interim nature of the CareSource Management Group project.

- The Authority's debt balances increased by $72 million primarily as a result of financing the CareSource Management Group project, the parking garage project with reductions due to scheduled debt retirements on previously funded projects.

- The Authority had total operating revenue of $2,873,341 and total operating expenditures of $1,931,035 resulting in net operating income of $942,306 for the year ended December 31, 2007.

- The Authority’s capital outlays for the year were $21,303,512 including $1,880,123 of interest expense capitalized during construction of the CareSource Management Group project.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The following is a list of the basic financial statements included in this report:

MD&A
MD&A Management Discussion and Analysis

Basic Financial Statements
Statement of Net Assets
Statement of Revenues, Expenses, and Changes in Net Assets
Statement of Cash Flows
Notes to the Financial Statements

The Authority is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using economic resource management focus and the accrual basis of accounting. The statements are designed to provide readers with a broad overview of the Authority's finances.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information showing how the Authority's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The *statement of cash flows* provides information about the Authority's cash receipts and cash payments during the year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

These financial statements report on all of the functions of the Authority that are principally supported by fees and financing lease revenues. The Authority’s overall function is to provide economic development financing activities in Montgomery County, Ohio as an independent political subdivision of the State of Ohio.

The financial statements can be found on pages 7 through 11 of this report.

Notes to the Financial Statements

The notes to the basic financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements. Notes to the basic financial statements can be found on pages 12 through 30 of this report.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets

The following table represents condensed statements of net assets.

	2007 (In thousands)	2006 (In thousands)	2005 (In thousands)
Current and other assets	$85,632	$29,788	$30,178
Capital assets	35,850	16,001	15,929
Total assets	121,482	45,789	46,107
Current liabilities	3,603	2,501	1,757
Non-current liabilities	105,097	31,771	32,852
Total liabilities	108,700	34,272	34,609
Net assets:			
Invested in capital assets, net of related debt	2,565	2,804	2,754
Restricted for capital projects	1,571	-	-
Restricted for bond fund program reserve	5,000	5,000	5,000
Unrestricted	3,646	3,713	3,744
Total net Assets	$12,782	$11,517	$11,498

For 2007, total net assets of the Authority increased by $1,264,438. Unrestricted net assets, which is the portion of net assets that can be used to finance the day-to-day operations without constraints established by debt covenants or other legal requirements, decreased by $67,177 in 2007. The investment in capital assets, net of related debt, decreased $239,477. Net assets restricted for capital projects increased $1,571,092 as a result of the interim nature of construction projects. A large portion of the Authority's net assets reflects restricted net assets that are from its bond fund reserves. The Authority uses these assets to provide for collateral for future project funding.

For 2006, total net assets of the Authority increased by $19,389. Unrestricted net assets decreased by $30,971 while net assets invested in capital assets, net of related debt, increased by $50,360.

Statement of Revenues, Expenses and Changes in Fund Net Assets

The following table reflects condensed Statements of Revenues, Expenses, and Changes in Net Assets.

	2007 (In thousands)	2006 (In thousands)	2005 (In thousands)
Fees charged	$ 1,022	$ 217	$ 211
Property financing leases	1,127	1,079	1,142
Operating grants	720	1,062	-
Other revenue	4	6	24
Total operating revenue	2,873	2,364	1,377
Operating expenses	1,636	1,635	732
Depreciation expense	295	259	221
Total operating expenses	1,931	1,894	953
Capital grants and contributions	1,274	106	407
Capital distributions	(1,167)	-	-
Interest income	1,763	417	316
Interest expense	(1,639)	(1,343)	(1,291)
Other non-operating items	91	370	307
Total non-operating revenues (expenses)	322	(450)	(261)
Change in net assets	$ 1,264	$ 20	$ 163

During 2007 net assets increased by $1,264,438 compared to just $19,389 for 2006. 2007 saw increased fees charged by the Authority over 2006 due to fees recognized upon closing of the CareSource Management Group financing arrangement and the DHL conduit debt transaction. Operating grants decreases in 2007 as 2006 recognized the Welcome Stadium Phase I grant while the Phase II grant received during 2007 is being deferred due to the interim nature of the project. Capital grants and contributions increased from 2006 to 2007 due to amounts received from the City of Dayton for land purchases that were in turn assigned to CareSource Management Group as part of the financing arrangement of the project. Interest income and expense increased due to investing proceeds and debt interest requirements of the CareSource Management Group project.

During 2006 net assets increased by $19,389 compared to $163,184 for 2005. Significant fluctuations involve increases in operating grants and related project expenses as a result of the Welcome Stadium Phase I grant and related expenses incurred during 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2007, 2006 and 2005, the Authority's capital assets as reflected in the fo1lowing schedule.

	2007 (In thousands)	2006 (In thousands)	2005 (In thousands)
Land	$13,764	$ 9,546	$ 9,400
Construction in progress	15,917	-	-
Buildings	7,204	7,310	7,204
Office equipment	7	7	7
Accumulated depreciation	(1,042)	(862)	(682)
Total	$35,850	$16,001	$15,929

During 2007, the Authority purchased land with a value of $4,218,338 for the site of the parking garage project. In addition, land with a value of $1,167,382 was purchased for the CareSource Management Group project which was in turn assigned to the Company as part of the project's financing agreement.

Interim construction cost on the CareSource Management Group project and the parking garage project total $15,030,085 and $887,707, respectively.

During 2006, capitalized interest was added to the land for the Austin Center project for $152,250. Also during 2006 there was an addition to the Relizon Parking Garage for $106,000. The $106,000 was for a feasibility study which the Authority has written off during 2007 as the proposed project has been abandoned.

Additional information on the Authority's capital assets can be found in Note 3.

Debt

As of December 31, 2007, the Authority had $99,328,464 of debt plus an additional borrowing of $1,000,000 related to its bond fund reserve program and an interim financing agreement with the City of Dayton for the parking garage project with a balance of $5,165,540. Overall, project and other related debt of the Authority increased $71,960,257 from 2006 as a result of the CareSource Management Group project and the parking garage project.

As of December 31, 2006, the Authority's total debt was $32,533,747 plus an additional borrowing of $1,000,000 related to its bond fund reserve program, a decrease of $966,193 from the prior year. Debt consists of loan, notes, bond anticipation notes and bond issues. Debt decreased in 2006 due to scheduled debt retirements.

The debt instruments have interest rates between 0.00 and 8.75 percent, and are collateralized by real property. The debts are payable to various governmental agencies and financial institutions in installments, with varying maturities through the year 2028.

Additional information on the Authority's long-term debt can be found in Notes 5 and 6.

ECONOMIC FACTORS

The Dayton economy has slowed considerably since 2007. The local economy has felt the effects from both Delphi Corporation shuttering six automotive plants and GM closing the last remaining truck assembly plant in December. While the Authority proceeded to complete projects that initiated in 2007, no new transactions were initiated in 2008 and looking forward towards 2009 the prospects do not look favorable for new economic development opportunities due to current economic conditions. The regional economy has lost over 20,000 jobs in the last 10 years, while the State of Ohio has had similar job losses. Due to the current status of the credit markets, the Authority has not been unable to price or issue debt for new projects. While the economics in which the Authority currently operates in are limiting potential new economic development projects, we are hopeful that our local economy and the US economy will start to improve in 2009 and provide more opportunities to advance the goals of the Authority.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the President, Dayton-Montgomery County Port Authority, 900 Kettering Tower, Dayton, Ohio 45423, or call (937) 222-4422.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO
STATEMENTS OF NET ASSETS
December 31, 2007 and 2006

ASSETS

	2007	2006
CURRENT ASSETS:		
Cash and investments	$ 447,274	$ 529,212
Total current assets	447,274	529,212
CAPITAL ASSETS:		
Land and land improvements	13,764,294	9,545,956
Construction in progress	15,917,792	-
Buildings and improvements	7,203,877	7,309,877
Office equipment	6,518	6,518
Total	36,892,481	16,862,351
Less: accumulated depreciation	(1,042,071)	(861,716)
Capital assets, net	35,850,410	16,000,635
RESTRICTED AND OTHER ASSETS:		
Restricted cash and investments	60,427,882	8,182,501
Financing lease receivable - Relizon	10,979,950	11,597,778
Financing lease receivable - Burrows	7,291,667	7,798,333
Debt issuance costs	6,429,404	1,616,768
Other assets	55,335	63,825
Total restricted and other assets	85,184,238	29,259,205
TOTAL ASSETS	$121,481,922	$45,789,052

(Continued)

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO
STATEMENTS OF NET ASSETS
December 31, 2007 and 2006
(Continued)

LIABILITIES

	2007	2006
CURRENT LIABILITIES:		
Accounts payable	$ 321,566	$ 45,073
Interest payable	374,988	75,000
Current portion of long-term debt:		
Relizon project State Loan Revenue Note	274,900	277,383
Relizon project Development Revenue Bonds, Series 2001	240,000	240,000
Parking garage project Development Mortgage Revenue Bonds Series 2001	130,000	120,000
Parking garage project Development Revenue Bonds Series 2004A	70,000	70,000
Burrows project DOD State Loan	535,000	505,000
Austin Center project Montgomery County TID Loan	922,742	575,331
Austin Center project Development Revenue Bonds Series 2004B	610,820	592,900
Care Source project Development Revenue Bonds Series 2007A	60,000	-
Care Source project Development Revenue Bonds Series 2007B	30,000	-
Care Source project Taxable State Loan Revenue Bonds	33,333	-
Total current liabilities	3,603,349	2,500,687
OTHER LIABILITIES – including amounts related to restricted assets:		
Revenue bonds notes and loans:		
Relizon project State Loan Revenue Note	4,550,050	4,824,950
Relizon project Development Revenue Bonds, Series 2001	5,915,000	6,155,000
Parking garage project Development Mortgage Revenue Bonds Series 2001	2,545,000	2,675,000
Parking garage project Development Revenue Bonds Series 2004A	1,955,000	2,025,000
Burrows project DOD State Loan	6,800,000	7,335,000
Austin Center project Montgomery County TID Loan	2,475,070	2,822,481
Austin Center project Development Revenue Bonds Series 2004B	3,704,882	4,315,702
Care Source project Development Revenue Bonds Series 2007A	44,940,000	-
Care Source project Development Revenue Bonds Series 2007B	15,570,000	-
Care Source project Taxable State Loan Revenue Bonds	7,966,667	-
Interim financing payable to City of Dayton	5,165,540	-
Bond Fund Program Loan	1,000,000	1,000,000
Land purchase option deposits	736,000	-
Reimbursable deposits	300,000	-
Deferred revenue	1,473,374	617,680
Total other liabilities	105,096,583	31,770,813
TOTAL LIABILITIES	108,699,932	34,271,500

NET ASSETS

	2007	2006
Invested in capital assets, net of related debt	2,564,744	2,804,221
Restricted for Capital Projects	1,571,092	-
Restricted for Bond Fund Program Reserve	5,000,000	5,000,000
Unrestricted net assets	3,646,154	3,713,331
TOTAL NET ASSETS	$12,781,990	$11,517,552

See notes to the financial statements.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES:		
Port fees	$ 913,153	$ 102,803
Property financing leases	1,127,384	1,078,727
Parking garage fees	104,198	71,259
Construction management fees	4,100	42,997
Operating grants	720,306	1,062,320
Other revenues	4,200	5,600
Total operating revenues	2,873,341	2,363,706
OPERATING EXPENSES:		
Salaries and benefits	198,423	149,268
Operating expenses	184,706	145,549
Project related expenses	833,768	978,540
Professional services	262,490	205,134
Payments in lieu of real estate taxes	156,470	156,470
Depreciation and amortization	295,178	258,691
Total operating expenses	1,931,035	1,893,652
OPERATING INCOME	942,306	470,054
NON-OPERATING REVENUES (EXPENSES):		
Tax increment financing provided by the City of Dayton	197,422	195,607
Additional tax increment reimbursements from the City of Dayton	-	174,091
Capital grants	-	106,000
Loss on disposal of capital assets	(106,000)	-
Capital contributions	1,274,232	-
Capital distributions	(1,167,382)	
Interest income	1,476,095	417,006
Market value change on investments	287,219	-
Interest and fiscal charges	(1,639,454)	(1,343,369)
Total non-operating revenues (expenses)	322,132	(450,665)
CHANGE IN NET ASSETS	1,264,438	19,389
NET ASSETS BEGINNING OF YEAR	11,517,552	11,498,163
NET ASSETS END OF YEAR	$ 12,781,990	$ 11,517,552

See notes to the financial statements.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from customers	$ 3,729,035	$ 2,981,386
Cash payments to employees	(198,423)	(149,268)
Cash payments to suppliers for goods and services	(1,160,941)	(1,499,665)
Net cash provided by operating activities	2,369,671	1,332,453
Cash flows from capital related activities:		
Proceeds from Montgomery County TID Loan (Austin Center Project)	-	367,872
Proceeds from Development Revenue Bonds (Austin Center Project)	-	152,250
Proceeds from Bonds (CareSource Project)	68,600,000	-
Proceeds from interim financing payable (Main Street Parking Garage)	5,165,540	-
Retirement of debt	(1,805,283)	(1,486,315)
Interest paid on debt	(3,219,889)	(1,318,369)
Financing leases principal payments received	1,124,494	969,333
Land purchase option deposits received	736,000	-
Other deposits received (paid)	305,000	(1,500)
Debt issuance costs paid	(4,923,971)	-
Cash capital contributions	1,274,232	-
Proceeds from capital grant	-	106,000
Tax increment property taxes	197,422	369,698
Acquisition and construction of capital assets	(19,423,089)	(252,275)
Net cash provided (used) by capital financing activities	48,030,456	(1,093,306)
Cash flows from non-capital financing activities:		
Investment purchases	(63,676,030)	-
Investment sales	18,930,915	-
Interest received	1,476,095	417,006
Net cash provided (used) by non-capital financing activities	(43,269,020)	417,006
Net increase in cash and cash equivalents	7,131,107	656,153
Cash and cash equivalents at beginning of year	4,711,713	4,055,560
Cash and cash equivalents at end of year	$11,842,820	$ 4,711,713

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DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO
STATEMENTS OF CASH FLOWS
(continued)
for the years ended December 31, 2007 and 2006

	2007	2006
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 942,306	$ 470,054
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	295,178	258,691
Changes in assets and liabilities:		
Increase (decrease) in deferred revenue	855,694	617,680
Increase (decrease) in accounts payable	276,493	(13,972)
Net cash provided by operating activities	$ 2,369,671	$ 1,332,453
Reconciliation of cash and investments reported on the Statements of Net Assets to cash and cash equivalents reported on the Statements of Cash Flows:		
Statements of Net Assets cash and investment amounts:		
Included in current assets	$ 447,274	$ 529,212
Included in restricted and other assets	60,427,882	8,182,501
Total	60,875,156	8,711,713
Investments included in the balances above that are not cash equivalents	49,032,336	4,000,000
Cash and cash equivalents reported in the Statements of Cash Flows	$11,842,820	$ 4,711,713
Non-Cash Transactions:		
Net increase in fair value of investments	$ 287,219	$ -
Capital asset write-off	(106,000)	-
Capital asset distributions to CareSource Management Group	(1,167,382)	-
Total non-cash transactions	$ 986,163	$ -

See notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Dayton-Montgomery County Port Authority, Montgomery County, Ohio (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 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 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 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 Authority facilities.

The accompanying basic financial statements comply with the provisions of the Governmental Accounting Standard Board (GASB) Statement 14, *The Financial Reporting Entity*, in that the financial statements include all divisions and operations for which the Authority is financially accountable. Financial accountability exists if a primary government/component unit appoints a majority of an organization’s government board and is able to impose its will on that organization. Financial accountability may also be deemed to exist if there is a potential for the organization to provide financial benefits to, or to impose specific financial burdens on, the primary government/component unit. On this basis, no governmental organization other than the Authority itself is included in the financial reporting entity.

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 Authority considers all highly liquid investments with maturities of less than three months (including restricted assets) to be cash equivalents.

Capital Assets

The Authority defines capital assets as those with an initial, individual cost of more than $500 and an estimated useful life in excess of three years. Capital assets are stated at historical cost. Donated capital 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 capital 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.

Tax Increment Financing from the City of Dayton

As part of the financing agreement between the Authority and the City of Dayton related to the Taxable Project Development Mortgage Revenue Bonds for the Patterson Street Parking Garage Facility Project, the City of Dayton makes debt service payments on the bonds from increment property taxes and payments in lieu of taxes received from the Authority. The Authority recognizes the debt service payments, made by the City of Dayton on the Authority's behalf, as tax increment financing, equal to the debt requirements of the bonds.

In addition, as a result of timing differences between increment tax collections, which are collected the year subsequent to when property taxes are assessed, and the timing of debt service requirements on the bonds, the City of Dayton agreed to reimburse the Authority any excess tax increment proceeds in order to return funding to the Authority which had paid the debt service requirements during the initial years of the bond issue. During 2006, the City reimbursed the Authority $174,091, which is reflected as additional tax increment reimbursements.

Net Assets

Total net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing, or portion of a borrowing, used for the acquisition, construction or improvements of those assets. Net assets restricted for capital projects represent assets restricted for the completion of ongoing construction projects, such as unused bond proceeds, reduced by applicable remaining portion of debt balances. The net assets are reported as restricted when there are limitations imposed by creditors, grantors, laws, or regulations of other governments. 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 net assets 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. DEPOSITS AND INVESTMENTS

Monies held by the Authority are classified by State statute into three categories.

Active deposits are public deposits necessary to meet current demands upon the Authority. Active deposits must be maintained either as cash by the Authority in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Authority has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Authority can be deposited or invested in the following securities:

- United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

- Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

- Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

- Bonds and other obligations of the State of Ohio or Ohio local governments;

- Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

- No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

- The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits
Custodial credit risk is the risk that in the event of a bank failure the Authority's deposits may not be returned. Protection of Authority cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC) as well as qualified securities pledged by the institution holding the assets. Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Authority places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation. The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At December 31, 2007, the carrying amount of the Authority's deposits was $2,325,648 and the bank balance was $2,325,648. FDIC insurance covered $116,936 of the bank balance.

At December 31, 2006, the carrying amount of the Authority's deposits was $529,212 and the bank balance was $529,212. Federal depository insurance covered $102,391 of the bank balance.

Investments
The Authority's investments as of December 31, 2007 were as follows:

	Fair Value	Credit Rating	Maturity
U.S. Government Money Market Funds *	$ 9,517,172	N/A	N/A
CDC Funding Corporation Guaranteed Investment Contracts (GIC)	4,000,000	N/A	5/15/2024
FNMA	10,380,675	AAA	< 1 year
FHLB	22,074,285	AAA	< 1 year
FFCB	3,136,219	AAA	< 1 year
FHLMC	9,441,157	AAA	< 1 year
Total Investments	$58,549,508		

The Authority's investments at of December 31, 2006 were as follows:

	Fair Value	Credit Rating	Maturity
U.S. Government Money Market Funds *	$4,182,501	N/A	N/A
CDC Funding Corporation Guaranteed Investment Contracts (GIC)	4,000,000	N/A	5/15/2024
Total Investments	$8,182,501		

* U.S. Government Money Market Funds are considered a cash equivalent for the purpose of the Statements of Cash Flows.

Interest Rate Risk – State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Authority, and that an investment must be purchased with the expectation that it will be held until maturity. The Guaranteed Investment Contracts are matched to obligations within the Bond Fund Program.

Concentration of Credit Risk – The Authority places no limit on the amount the Authority may invest in one issuer. As of December 31, 2007, of the Authority's total investments, 37.7 percent are in Federal Home Loan Bank bonds, 17.7 percent are in Federal National Mortgage Association bonds and notes, 16.3 percent are in U.S. Government Money Market Funds, 16.1 percent are in Federal Home Loan Mortgage Corp bonds and notes, 6.8 percent are in Guaranteed Investment Contracts, and 5.4 percent are in Federal Farm Credit Bank bonds. As of December 31, 2006, of the Authority's total investments, 49.8 percent are in U.S. Government Money Market Funds and 50.2 percent are in Guaranteed Investment Contracts.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The CDC Funding Corporation Guaranteed Investment Contracts is exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Authority's name. The Authority has no investment policy dealing with the investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Authority or qualified trustee.

3. CAPITAL ASSETS

The following summarizes the changes to capital assets during 2007.

Class	Balance December 31, 2006	Additions	Deletions	Balance December 31, 2007
Capital assets not being depreciated:				
Land	$ 9,545,956	$ 5,385,720	$1,167,382	$13,764,294
Construction in progress	-	15,917,792	-	15,917,792
Capital assets being depreciated:				
Office equipment	6,518	-	-	6,518
Buildings	7,309,877	-	106,000	7,203,877
Total cost	$16,862,351	$21,303,512	$1,273,382	$36,892,481
Accumulated depreciation				
Office equipment	$ (6,259)	$ (259)	$ -	$ (6,518)
Buildings	(855,457)	(180,096)	-	(1,035,553)
Accumulated depreciation	$ (861,716)	$ (180,355)	$ -	$(1,042,071)
Net value	$16,000,635			$35,850,410

Interest capitalized during 2007 as part of construction in progress for the CareSource Management Group project totaled $1,880,423. During 2006, capitalized interest was added to land for the Austin Center project for $152,250.

4. 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 monthly principal payments on the Taxable State Loan Revenue Note in varying monthly amounts ranging from $22,647 beginning on January 1, 2008 to $30,839 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 monthly principal payments on the Taxable Project Development Revenue Bonds in varying monthly amounts ranging from $20,000 beginning on January 1, 2008 to $40,000 on February 1, 2017. A balloon payment of $3,000,000 is also due on February 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
2008	$ 1,195,448
2009	1,182,798
2010	1,206,823
2011	1,210,215
2012	1,191,595
Thereafter	9,918,108
Total	15,904,987
Unearned income	(4,925,037)
Net investment in lease	$10,979,950

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.

Principal payments on the Taxable Project Development Mortgage Revenue Bonds, Series 2001 are due on December 1, in varying amounts ranging from $130,000 in 2008 to $270,000 in 2021. Interest at a rate of 5.81 percent was effective until November 30, 2003. Thereafter, the interest rate is variable and was reset on December 1, 2003 and is to be reset 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 calculated by the City of Dayton is 2.77 percent, effective until December 1, 2009.

The 2001 BAN has been refunded on an annual basis. On July 14, 2004 the Authority issued $2,235,000 of 20 year Project Development Revenue Bonds, Series 2004A, to fund appropriate reserves, pay the cost of issuance and refund the Bond Anticipation Note. The Authority is to make semi-annual principal payments on the Project Development Revenue Bonds, Series 2004A in semi-annual amounts ranging from $35,000 on May 15, 2008 to $305,000 on May 15, 2024. The bonds bear interest rates ranging from 5 to 6.125 percent.

During 2006, the Authority received a capital grant of $106,000 from the City of Dayton for a study for potential renovations to the facility. The cost of the study was capitalized as part of the cost of the building. During 2007, the Authority determined to not perform renovations and has deleted the cost of the study by recording a loss on disposal of the capital asset.

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 $130,000 on March 1, 2008 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 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 consisted of interest and fees until May 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
2008	$ 934,066
2009	931,971
2010	931,546
2011	931,032
2012	926,927
Thereafter	5,004,598
Total	9,660,140
Unearned income	(2,368,473)
Net investment in lease	$ 7,291,667

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 an initial loan of $2,475,000 from Montgomery County Transportation Improvement District.

The Development Mortgage Revenue Bond Anticipation Note was scheduled to mature on May 1, 2006 at an interest rate of 6 percent. The Loan was secured by the acquired property. During July 2004 the Authority issued $5,075,000 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. Bond repayment requirements provide that accrued interest through November 15, 2006 totaling $152,250 is to be added to the principal balance of the bonds and retired as principal over the remaining life of the bonds. Principal payments on the Development Mortgage Revenue Bonds, Series 2004B are due on May 15 and November 15, in varying amounts ranging from $303,136 on May 15, 2008 to $362,435 on May 15, 2014. The bonds bear an interest rate of 3.0 percent.

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

During 2004, the land purchase and terms of the TID loan were finalized. The TID and the Authority have a vested interest in property in the interchange project. The Authority received a total of $3,029,940 to enable financing the purchase of 121 acres that includes an equity infusion and additional costs. During 2006, the TID provided an additional $367,872 of funding to the Authority in order for the Authority to make the initial debt service payment on the Mortgage Revenue Bonds, Series 2004B. The additional funding increased the TID's equity interest in the project by increasing the loan balance payable by the Authority to the TID.

During 2007, $736,000 was provided to the Authority by a developer in order for the Authority to make the debt service payment on the Mortgage Revenue Bonds, Series 2004B as they came due. In return, the developer retains an option to purchase the property, with all amounts contributed to be applied towards the purchase price upon settlement.

Main and Monument Project

During January 2005, the Authority purchased land at a total cost of $411,741, to be combined with other adjacent properties as a part of a larger project known as the Main and Monument Project. The purpose of the project is to create a “shovel ready” site within the City of Dayton, Ohio.

Acquisition costs were funded by $407,266 of proceeds from a capital grant from Development Projects, Incorporated along with other Authority funds.

Avis Project

During 2006, the Authority received an operating grant of $750,000 from the City of Dayton for the purpose of constructing a commercial building for the Avis Corporation. As of December 31, 2006, $617,680 of grant funds remain which are recognized as deferred revenue. During 2007, the project was completed.

Welcome Stadium Project

During 2006, the Authority received an operating grant of $930,000 from the State of Ohio for the purpose of providing Phase I renovations to the University of Dayton’s Welcome Stadium. During 2007, the Authority received an additional operating grant of $1,576,000 for Phase II of the project. As of December 31, 2007, $1,473,374 of grant funds remain which are recognized as deferred revenue.

CareSource Management Group Project

During May 2007, the Authority began construction of a 300,000 square foot commercial office building for the corporate headquarters of the CareSource Management Group.

To fund the project, the Authority issued $68,600,000 of debt consisting of 1) $45,000,000 of Adjustable Rate Development Revenue Bonds, Series 2007A, 2) $15,600,000 of Fixed Rate Development Revenue Bonds, Series 2007B, and 3) $8,000,000 of Taxable State Loan Revenue Bonds, all dated May 1, 2007.

The Authority is to make monthly principal payments on the Adjustable Rate Development Revenue Bonds, Series 2007A in varying monthly amounts ranging from $60,000 beginning on December 1, 2008 to $165,000 on November 1, 2028. A balloon payment of $20,000,000 is due on November 15, 2028. While the bonds bear an adjustable rate of interest, rate swap agreements with financial institutions have established a fixed rate to be applied to the Authority of 3.71 percent. The bonds are secured by the property and rental payments to be received under the operating lease with CareSource Management Group through November 1, 2028.

The Authority is to make monthly principal payments on the Fixed Rate Development Revenue Bonds, Series 2007B in varying monthly amounts ranging from $30,000 beginning on December 1, 2008 to $115,000 on November 1, 2028. The bonds bear an interest rate of 6.35 percent and are secured by the property and rental payments to be received under the lease with CareSource Management Group through November 1, 2028.

The Authority is to make monthly principal payments on the Taxable State Loan Revenue Notes in monthly amounts of $33,333 beginning on December 1, 2008 through November 1, 2028. The notes bear interest rates between 0 and 4 percent and are secured by the property and rental payments to be received under the lease with CareSource Management Group.

The Authority has entered into a 20 year operating lease agreement, dated May 1, 2007, with CareSource Management Group for use of the office building facility. The timing and amount of payments due from CareSource Management Group under the lease are scheduled to meet the debt service requirements of the Authority and other costs and expenses due to the Authority through November 1, 2028. The lease may be extended by CareSource Management Group for an additional 10 years, subject to execution of a supplemental agreement with the Authority. Land with a purchase price of $1,167,382 was funded by a cash contribution from the City of Dayton and transferred to CareSource Management Group under the terms of the lease.

The Authority accounts for the lease as an operating lease. As of December 31, 2007, $15,030,085 of construction cost has been capitalized as construction in progress. The project is to be completed in December 2008.

Main Street Parking Garage

In conjunction with the to CareSource Management Group project, during 2007 the Authority began construction of a seven story parking garage in downtown Dayton to be owned and operated by the Authority. CareSource Management Group has agreed to rent 900 spaces for 20 years with an option to re-negotiate rental rates after 10 years.

Interim funding for construction of the garage is provided under an intergovernmental agreement with the City of Dayton until such time the City issues economic development revenue bonds and enters into a loan agreement with the Authority. As of December 31, 2007, $5,106,045 of cost has been capitalized, including $4,218,338 of land and $887,707 of construction costs. Interim funding of $5,165,540 under the financing arrangement has been provided by the City of Dayton as of December 31, 2007. The amount funded is reflected on the statement of net assets as a payable to the City of Dayton until a formal loan agreement is finalized. Construction is scheduled to be completed in December 2008.

During January 2008, the City of Dayton issued economic development revenue bonds and entered into a loan agreement with the Authority for the permanent funding of the project (see Note 12).

5. 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 was initially for a 20-year term, with 25 percent of the interest earned on the fund remitted back to ODOD through December 2017 and then, beginning 2018 and continuing through December 2022, 100 percent of the interest earned was required to be remitted back to ODOD. In addition to the interest repayment requirements, the Authority was to make a $1,000,000 repayment of principal on December 31, 2022. During May 2004 the terms were renegotiated whereby the Authority is to make annual interest payments beginning 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 principal and $500,000 in accumulated interest so long as the funds are not committed in the Bond Fund Program reserve. As of December 31, 2007 the Authority has accrued interest payments owed to ODOD totaling $25,000.

In addition, the Authority has obtained a $5,000,000 commercial line of credit for additional Bond Fund Program purposes. As of December 31, 2007, no amounts of this line of credit have been utilized.

6. PROJECT RELATED DEBT OBLIGATIONS

For the year ended December 31, 2007, changes in the Authority's project related debt were as follows:

	Interest Rate	Balance January 1, 2007	Additions	Payments and Deletions	Balance December 31, 2007	Amount Due Within One Year
Relizon project:						
Taxable State Loan Revenue Note	2.5%	$5,102,333	$ -	($277,383)	$4,824,950	$274,900
Taxable Development Revenue Bonds, Series 2001	8.75%	6,395,000	-	(240,000)	6,155,000	240,000
Parking garage project:						
Taxable Development Mortgage Revenue Bonds, Series 2001	variable currently 2.77%	2,795,000	-	(120,000)	2,675,000	130,000
Development Revenue Bonds Series 2004A	5.0%-6.125%	2,095,000	-	(70,000)	2,025,000	70,000
Burrows project:						
Ohio DOD Taxable State Loan	5.35%	7,840,000	-	(505,000)	7,335,000	535,000
Austin Center project:						
Montgomery County TID Loan	0.0%	3,397,812	-	-	3,397,812	922,742
Taxable Development Revenue Bonds, Series 2004B	3.0%	4,908,602	-	(592,900)	4,315,702	610,820
CareSource project:						
Development Revenue Bonds, Series 2007A	3.79%	-	45,000,000	-	45,000,000	60,000
Development Revenue Bonds, Series 2007B	6.35%	-	15,600,000	-	15,600,000	30,000
Taxable State Loan Revenue Bonds	0.0%-4%	-	8,000,000	-	8,000,000	33,333
Total		$32,533,747	$68,600,000	($1,805,283)	$99,328,464	$2,906,795

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

	Relizon Project				Burrows Project	
Year Ending	State Loan Revenue Note		2001 Series Revenue Bonds		DOD State Loan	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 274,900	$ 128,919	$ 240,000	$ 528,938	$ 535,000	$ 381,789
2009	281,852	121,264	250,000	507,901	565,000	352,565
2010	288,980	113,416	300,000	483,656	595,000	321,736
2011	296,287	105,369	300,000	457,406	630,000	289,234
2012	303,780	97,118	340,000	430,135	660,000	254,994
2013-2017	3,379,151	306,225	4,725,000	1,456,656	3,900,000	690,484
2018-2022	-	-	-	-	450,000	9,028
2023-2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
Total	$ 4,824,950	$ 872,311	$ 6,155,000	$ 3,864,692	$ 7,335,000	$ 2,299,830

	Parking Garage Project				Austin Center Project	
Year Ending	2001 Series Revenue Bonds		2004A Series Revenue Bonds		Austin Center TID Loan	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 130,000	$ 74,098	$ 70,000	$ 113,087	$ 922,742	$ -
2009	135,000	70,497	75,000	109,588	357,912	-
2010	145,000	66,757	80,000	105,712	368,730	-
2011	155,000	62,741	80,000	101,713	379,874	-
2012	160,000	58,447	90,000	97,587	391,357	-
2013-2017	960,000	220,077	500,000	417,437	977,197	-
2018-2022	990,000	70,636	665,000	259,087	-	-
2023-2027	-	-	465,000	35,372	-	-
2028	-	-	-	-	-	-
Total	$ 2,675,000	$ 623,253	$ 2,025,000	$ 1,239,583	$ 3,397,812	$ -

	Austin Center Project		CareSource Project			
	2004B Series		Revenue Bonds		Revenue Bonds	
Year Ending	Revenue Bonds		Series 2007A		Series 2007B	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 610,820	$ 124,924	$ 60,000	$ 1,705,500	$ 30,000	$ 990,600
2009	629,282	106,462	765,000	1,690,151	415,000	976,764
2010	648,302	87,442	790,000	1,660,667	420,000	950,119
2011	667,897	67,847	840,000	1,629,700	460,000	922,708
2012	688,084	47,660	880,000	1,597,422	480,000	892,494
2013-2017	1,071,317	32,299	5,095,000	7,440,692	2,950,000	3,922,749
2018-2022	-	-	6,505,000	6,348,821	4,060,000	2,841,717
2023-2027	-	-	8,310,000	4,955,247	5,560,000	1,332,889
2028	-	-	21,755,000	728,312	1,225,000	39,211
Total	$ 4,315,702	$ 466,634	$ 45,000,000	$ 27,756,512	$ 15,600,000	$ 12,869,251

	CareSource Project			
	Revenue Bonds			
Year Ending	Chapter 166		Total	
December 31,	Principal	Interest	Principal	Interest
2008	$ 33,333	$ 6,667	$ 2,906,795	$ 4,054,522
2009	400,000	77,834	3,874,046	4,013,026
2010	400,000	73,833	4,036,012	3,863,338
2011	400,000	69,853	4,209,058	3,706,571
2012	400,000	65,833	4,393,221	3,541,690
2013-2017	2,000,000	482,500	25,557,665	14,969,119
2018-2022	2,000,000	469,023	14,670,000	9,998,312
2023-2027	2,000,000	252,510	16,335,000	6,576,018
2028	366,667	7,333	23,346,667	774,856
Total	$ 8,000,000	$ 1,505,386	$ 99,328,464	$ 51,497,452

7. DEFINED BENEFIT PENSION PLANS

All full-time employees of the Authority participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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 percent 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 that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, 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 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, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2007, the members of all three plans were required to contribute 9.5 percent of their annual covered salaries. The Authority's contribution rate for 2007 was 13.85 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Authority's total required contributions for the years ended December 31, 2007, 2006, and 2005 were $22,765, $17,484 and $15,225 respectively. The full amount has been contributed for 2007, 2006 and 2005.

8. OTHER POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for post retirement health care coverage.

The health care coverage provided by the retirement system is considered an Other Post Employment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post retirement health care based on authority granted by State statute. The 2007 employer contribution rate was 13.85 percent of covered payroll; 5.0 and 6.0 percent of covered payroll was the portion that was used to fund health care from January 1, 2007 to June 30, 2007, and from July 1, 2007 to December 31, 2007, respectively.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 5.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 374,979. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130. Actual employer contributions for 2007, which were used to fund post employment benefits, were $9,040. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at

December 31, 2006, were $12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $30.7 billion and $18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allow additional funds to be allocated to the health care plan.

9. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries, and natural disasters. The Authority has obtained commercial insurance for comprehensive property and general liability, employee bonding, auto insurance and specific property insurance for the Patterson Street Parking Garage.

Settled claims resulting from these risks have not exceeded commercial insurance coverage. There has not been a significant reduction in coverage from the prior year.

10. CONDUIT DEBT

The Authority has issued debt obligations on behalf of various entities for the purpose of acquisition, construction or leasing of facilities and equipment. These debt obligations and the interest thereon do not constitute debt or liability by the Authority, but are special obligations between investors and the debtors payable solely from the payments received by the trustee under the loan agreements, and meet the definition of conduit debt in GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. The Authority has elected to not report the liability and respective asset on the face of the financial statements. Conduit debt issues outstanding as of December 31, 2007 are as follows:

Entity	Amount
DHL Wilmington Air Park	$270,000,000
YMCA of Dayton	3,701,156
Goodwill Industries of the Miami Valley	4,159,991
Sherman-Dixie Concrete Industries	3,500,000
Cedarville University	750,000
Total	$282,111,147

DHL announced in May 2008 that they would shut down the Wilmington Air Park. DHL indicated that they had an arrangement with UPS to use their Louisville sort facility and air cargo hub for package distribution. The Wilmington community has requested that DHL convey the Air Park to the City for free if they completely shut down the air cargo hub. State officials have been heavily involved with the ongoing negotiations with DHL. DHL continues to move forward by reducing employment at the Air Park and continues to make debt service payments on the conduit debt issue. The debt is backed by three guarantors: DHL Wilmington, DHL America, and Deutsche Post.

11. NEW ACCOUNTING STANDARDS

During 2007, the Authority implemented GASB Statement No. 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria for ascertaining whether certain transactions should be regarded as sales or collateralized borrowings. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006. The implementation of this Statement had no impact on the Authority's financial statements or disclosures.

12. SUBSEQUENT EVENTS

On January 10, 2008, the City of Dayton issued $32,000,000 in economic development revenue bonds with various interest rates between 4% and 5% with a maturity date of December 1, 2028. Part of the bond issue is to provide funding to the Authority for the Main Street Parking Garage facility. On January 10, 2008, the Authority entered into a loan agreement with the City of Dayton for $20,100,000 in principal and $12,433,058 in interest through December 1, 2028, for financing the construction of the facility.

Bastin & Company, LLC
Certified Public Accountants

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*

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, Montgomery County, Ohio (the Authority) as of and for the year ended June 30, 2007, and have issued our report thereon dated December 15, 2008. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting practices the Auditor of State prescribes such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings as 2007-01 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

4286 Mt. Carmel-Tobasco Road, Suite A, Cincinnati, Ohio 45244-2372, Telephone/Fax (513) 753-3999

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, grant agreements and other matters, 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*.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Authority's responses and, accordingly, express no opinion on them.

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

Bastin & Company, LLC

Cincinnati, Ohio
December 15, 2008

FINDING NUMBER 2007 - 01

Significant Deficiency/Material Weakness

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit.*

SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This standard requires the auditor to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control over financial reporting. The following conditions represent items noted as a result of the audit that are required to be reported to management and the governing body of the Authority.

1. Preparation of Financial Statements

The Authority contracts its accounting function to a Certified Public Accountant (CPA) who records transactions of the Authority on a cash basis, reconciles accounts and makes year-end accrual entries. Compiled statements provided for audit exclude a management's discussion and analysis and financial statement footnotes, both of which are required in order to report financial results in accordance with generally accepted accounting principles. The management's discussion and analysis and footnotes are drafted as part of the audit process from information provided by the Authority and subsequently provided to management of the Authority for review and approval.

We understand that these components of the financial statements are not provided by the Authority's contracted accountant as doing so would subject the accountant to a higher level of peer review that would apply under quality control standards established by the American Institute of Certified Public Accountants. The contracted accountant does not wish to expand services requiring a higher level of review.

As a result of the above conditions, SAS No. 112 requires us to report that the Authority does not have appropriate personnel or contractual arrangements in place for the preparation of a complete set of financial statements prepared in accordance with generally accepted accounting principles.

2. Audit Adjustments

SAS No. 112 requires us to report adjustments that were made as a result of audit:

a. Our procedures, applied to the initial limited set of financial statements provided by the Authority, disclosed that management of the Authority had considered the CareSource project to be a conduit debt type of transaction and therefore did not record any transactions related to the project. The project is not a conduit debt type of financing project and requires that the Authority record the assets, debt and transactions of the project. As a result, the Authority completely revised its initial set of limited financial statements to account for the $68.6 million project.

b. Audit reclassification adjustments totaling $4,356,284 between three separate CareSource project investment accounts were required in order to properly state individual account balances. While there was no effect on the total recorded cost basis balances of the three accounts, individual accounts were not properly recorded or reconciled.

c. Audit adjustments totaling $287,219 were required to properly record CareSource project investment accounts at market values.

d. Audit adjustments totaling $125,153 were required to properly record the values related to financing leases, applicable debt and interest expense accounts.

e. Audit reclassification adjustments totaling $736,000 were required to properly record a developers purchase option payments.

f. Audit adjustments totaling $349,988 were required to properly record interest payable.

g. Audit reclassification adjustments totaling $7,808,146 were required to properly record items that were recorded as operating grants to appropriate payables, deferred revenue and capital contributions.

h. Audit adjustments totaling $233,892 were required to properly state TIF revenues, interest expense and payments in lieu of taxes related to TIF transactions made by the City of Dayton on behalf of the Authority.

i. Audit reclassification adjustments totaling $1,342,880 were required to properly record construction in progress expenditures, disposal of assets and capital distributions recorded as project related expenses.

j. Audit reclassification adjustments totaling $1,880,423 were required to properly record capitalized interest as part of construction in progress.

The presentation of a complete set of materially correct financial statements, including management's discussion and analysis and financial statement footnotes, is the responsibility of management. We recommend that the Authority implement control procedures that enable management to prepare a complete set of financial statements and to identify and correct potential material misstatements in those financial statements.

Authority's Response

The Authority is in the process of contracting with a new firm to take over the accounting and reporting functions of the Authority. The new firm will be responsible for the preparation of complete set of financial statements and to determine and properly record transactions. We believe these steps will help us resolve the issues noted above for future years.

FINDING NUMBER 2007 - 02

<u>Significant Deficiency/Material Weakness</u>

Final formalized minutes of the Authority's Board of Directors are not being adequately prepared or maintained. While draft minutes for selected Board meeting were provided, we were notified by management of the Authority that official minutes have were been maintained since 2006.

We recommend that all meeting and actions of the Board of Directors be adequately documented, approved and retained.

<u>Authority's Response</u>

The Authority will take steps to ensure that Board minutes are formally finalized approved and retained.

Mary Taylor, CPA
Auditor of State

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
MARCH 12, 2009

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