DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2005 and 2004

Auditor of State
Betty Montgomery

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, Montgomery County, prepared by Bastin & Company, LLC, for the audit period January 1, 2005 through December 31, 2005. 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

October 31, 2006

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

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DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY

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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, 2005 and 2004, 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, 2005 and 2004 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 May 30, 2006 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 5 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
May 30, 2006

4424 Aicholtz Road, Suite D, Cincinnati, Ohio 45245-1561, 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, 2005. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- Total assets of the Authority exceeded its liabilities as of December 31, 2005 by $11,498,163, an increase of 1.4 percent from December 31, 2004.

- Total unrestricted net assets of the Authority as of December 31, 2005 totaled $3,744,302, a decrease of 6.0 percent from December 31, 2004.

- The Authority's restricted and unrestricted cash balance at December 31, 2005 totaled $8,055,560, a decrease of $152,741 or 1.9 percent, from December 31, 2004.

- The Authority had total operating revenue of $1,377,131 and total operating expenditures of $952,586 resulting in net operating income of $424,545 for the year ended December 31, 2005. Net income after non-operating revenues and expenses, resulted in an increase in total net assets of $163,184 for the year.

- The Authority's capital outlays for the year were $411,741.

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 financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private sector business.

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 most recent fiscal 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. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows to future fiscal periods (e.g. depreciation and earned but unused vacation leave).

The *statement of cash flows* provides information about the Authority's cash receipts and cash payments during the reporting period. 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 6 through 9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements for its various programs. The Authority reports its overall financial position and activities in a proprietary fund type - enterprise fund.

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 10 through 25 of this report.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets

The following table represents condensed statements of net assets.

	2005 (In thousands)	2004 (In thousands)
Current and other assets	$30,178	$31,270
Capital assets	15,929	15,698
Total assets	46,107	46,968
Current liabilities	1,757	1,133
Non-current liabilities	32,852	34,500
Total liabilities	34,609	35,633
Net assets:		
Invested in capital assets, net of debt	2,754	2,353
Restricted for bond fund	5,000	5,000
Unrestricted	3,744	3,982
Total net Assets	$11,498	$11,335

The largest portion of the Authority's net assets (43 percent) reflects restricted net assets that are from its bond fund reserves. The Authority uses these assets to provide for collateral for future project funding. The unrestricted net assets (33 percent) of the Authority are available for future use to provide program services.

Statement of Revenues, Expenses and Changes in Fund Net Assets

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

	2005 (In thousands)	2004 (In thousands)
Fees charged	$ 211	$ 202
Property financing leases	1,142	1,086
Other revenue	24	37
Total operating revenue	1,377	1,325
Operating expenses	732	697
Depreciation expense	221	212
Total operating expenses	953	909
Capital grant	407	-
Tax increment financing	307	192
Other non-operating items	(975)	(1,374)
Total non-operating revenues	(261)	(1,182)
Change in net assets	$ 163	$ (766)

The net assets of the Authority increased by $163,184 during the current fiscal year. The Authority's revenues are largely from property financing lease revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2005 and 2004, the Authority's capital assets were $15,928,801 and $15,697,501 (capital assets net of accumulated depreciation) as reflected in the fo1lowing schedule.

	2005 (In thousands)	2004 (In thousands)
Land	$ 9,400	$ 8,988
Buildings	7,204	7,204
Office equipment	7	7
Accumulated depreciation	(682)	(501)
Total	$15,929	$15,698

During 2004, land for the Main and Monument project was purchased for $411,741.

Additional information on the Authority's capital assets can be found in Note 4 on page 15 of this report.

Debt

As of December 31, 2005, the Authority had $33,499,940 of debt plus an additional borrowing of $1,000,000 related to its bond fund reserve program, a decrease of $1,107,667 from the prior year. Debt consists of loan, notes, bond anticipation notes and bond issues. The decrease in debt from previous years is due to scheduled debt retirements.

The debt instruments as of December 31, 2005 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 2024.

Additional information on the Authority's long-term debt can be found in Notes 6 and 7 beginning on page 20 of this report.

ECONOMIC FACTORS

The Authority's activity has increased during the last year. The Authority is in the process of finalizing four additional bond fund transactions. In addition, the Authority is working with CareSource Management Group, a health care company, to build a $60M office tower and parking garage in downtown Dayton. Other potential activity includes potential financing for a building for a possible buyer of Delphi's brake hose business, financing a $15M building for a building products company, financing a $12M building for one of the five largest suppliers of human tissues in the country as well as several other diverse projects.

The Austin Center interchange project continues to move forward with engineering and right of way acquisition underway. The Authority is planning to sell some of the property in the fall of 2006 to meet debt service payments.

The Authority is also working closely with the City of Dayton on several other downtown projects, one of which may result in a reduction of debt on the Patterson parking garage that would increase operational funding.

The DHL Wilmington Air Park Expansion and Improvement Project that has been involved in legal proceedings is also progressing. The legal settlement stipulates that the Authority will issue the bonds as originally intended with no reduction in fees and should close in late 2006.

Generally speaking, the Authority has weathered a difficult period from 2004 through 2005 and is now optimistic about its future role to finance important regional economic development projects. The gradual increase in interest rates has resulted in companies pursuing fixed rate, long term financing. As a result, the Authority investigates 10-20 possible new transactions each month.

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
STATEMENTS OF NET ASSETS
December 31, 2005 and 2004

ASSETS

	2005	2004
CURRENT ASSETS:		
Cash, cash equivalents and investments	$ 87,751	$ 398,020
Total current assets	87,751	398,020
CAPITAL ASSETS:		
Land and land improvements	9,399,681	8,987,940
Buildings and improvements	7,203,877	7,203,877
Office equipment	6,518	6,518
Total	16,610,076	16,198,335
Less: accumulated depreciation	(681,275)	(500,834)
Capital assets, net	15,928,801	15,697,501
RESTRICTED AND OTHER ASSETS:		
Restricted cash, cash equivalents and investments	7,967,809	7,810,281
Financing lease receivable - Relizon	12,080,444	12,522,889
Financing lease receivable - Burrows	8,285,000	8,743,333
Debt issuance costs	1,690,029	1,724,758
Other assets	67,314	70,804
Total restricted and other assets	30,090,596	30,872,065
TOTAL ASSETS	$46,107,148	$46,967,586

(Continued)

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY
STATEMENTS OF NET ASSETS
December 31, 2005 and 2004
(Continued)

LIABILITIES

	2005	2004
CURRENT LIABILITIES:		
Accounts payable	$ 59,045	$ -
Interest payable	50,000	25,000
Current portion of long-term debt:		
Relizon project State Loan Revenue Note	302,667	302,667
Relizon project Development Revenue Bonds, Series 2001	180,000	180,000
Parking garage project Development Mortgage Revenue Bonds Series 2001	115,000	110,000
Parking garage project Development Revenue Bonds Series 2004A	65,000	60,000
Burrows project DOD State Loan	485,000	455,000
Austin Center project Montgomery County TID Loan	181,235	-
Austin Center project Development Revenue Bonds Series 2004B	318,649	-
Total current liabilities	1,756,596	1,132,667
OTHER LIABILITIES – including amounts related to restricted assets:		
Revenue bonds notes and loans:		
Relizon project State Loan Revenue Note	5,102,333	5,405,000
Relizon project Development Revenue Bonds, Series 2001	6,415,000	6,595,000
Parking garage project Development Mortgage Revenue Bonds Series 2001	2,795,000	2,910,000
Parking garage project Development Revenue Bonds Series 2004A	2,095,000	2,160,000
Burrows project DOD State Loan	7,840,000	8,325,000
Austin Center project Montgomery County TID Loan	2,848,705	3,029,940
Austin Center project Development Revenue Bonds Series 2004B	4,756,351	5,075,000
Bond Fund Program Loan	1,000,000	1,000,000
Total other liabilities	32,852,389	34,499,940
TOTAL LIABILITIES	34,608,985	35,632,607
NET ASSETS		
Invested in capital assets, net of related debt	2,753,861	2,352,561
Restricted for Bond Fund Program Reserve	5,000,000	5,000,000
Unrestricted net assets	3,744,302	3,982,418
TOTAL NET ASSETS	$11,498,163	$11,334,979

See notes to the financial statements.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2005 and 2004

	2005	2004
OPERATING REVENUES:		
Port fees	$ 99,977	$ 58,000
Property financing leases	1,142,428	1,086,380
Parking garage fees	44,817	35,215
Restaurant fees	-	8,478
Construction management fees	66,208	14,615
Other revenues	23,701	36,600
Total operating revenues	1,377,131	1,239,288
OPERATING EXPENSES:		
Salaries and benefits	136,209	80,462
Operating expenses	180,052	209,746
Professional services	259,194	250,412
Payments in lieu of real estate taxes	156,470	156,470
Depreciation and amortization	220,661	212,135
Total operating expenses	952,586	909,225
OPERATING INCOME	424,545	330,063
NONOPERATING REVENUES (EXPENSES):		
Tax increment financing provided by the City of Dayton	193,654	191,563
Additional tax increment reimbursements from the City of Dayton	113,283	-
Capital grants	407,266	-
Interest income	315,911	128,722
Interest and fiscal charges	(1,291,475)	(1,416,564)
Total nonoperating revenues (expenses)	(261,361)	(1,096,279)
CHANGE IN NET ASSETS	163,184	(766,216)
NET ASSETS BEGINNING OF YEAR	11,334,979	12,101,195
NET ASSETS END OF YEAR	$ 11,498,163	$ 11,334,979

See notes to the financial statements.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	$1,377,131	$1,239,288
Cash payments to employees	(136,209)	(80,462)
Cash payments to suppliers for goods and services	(536,671)	(616,628)
Net cash provided by operating activities	704,251	542,198
Cash flows from capital related activities:		
Proceeds from Development Mortgage Revenue Bonds Series 2004A	-	2,235,000
Proceeds from Project Development Revenue Bonds Series 2004B	-	5,075,000
Proceeds from Montgomery County TID loan (Austin Center Project)	-	554,940
Retirement of bond anticipation notes (Austin Center Project)	-	(2,925,000)
Retirement of bond anticipation notes (Parking Garage Project)	-	(2,000,000)
Retirement of revenue bonds (Parking Garage Project)	(110,000)	(105,000)
Retirement of Development Revenue Bonds (Parking Garage Project)	(60,000)	(15,000)
Retirement of state loan revenue note (Relizon Project)	(302,667)	(302,667)
Retirement of revenue bonds (Relizon Project)	(180,000)	(180,000)
Retirement of revenue bonds (Burrows Project)	(455,000)	(220,000)
Interest paid on debt	(1,266,475)	(1,391,564)
Financing leases principal payments received	900,777	699,111
Refundable deposits paid	-	(5,000)
Debt issuance costs paid	(2,000)	(702,740)
Proceeds from capital grant	407,266	-
Tax increment property taxes	306,937	191,563
Acquisition and construction of capital assets	(411,741)	(3,405,076)
Net cash used for capital financing activities	(1,172,903)	(2,496,433)
Cash flows from non-capital financing activities:		
Investment sales	2,021,000	-
Interest received	314,153	113,707
Net cash provided by non-capital financing activities	2,335,153	113,707
Net increase (decrease) in cash and cash equivalents	1,866,501	(1,840,528)
Cash and cash equivalents at beginning of year	2,189,059	4,029,587
Cash and cash equivalents at end of year	$ 4,055,560	$ 2,189,059
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ 424,545	$ 330,063
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	220,661	212,135
Accounts payable	59,045	-
Net cash provided by operating activities	$ 704,251	$ 542,198
Non-Cash Transactions:		
Net increase in fair value of investments	$ 1,758	$ 7,538
Total non-cash transactions	$ 1,758	$ 7,538

See notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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 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 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 a 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 2005, the City reimbursed the Authority $113,283 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 (both current and long-term portions) used for the acquisition, construction or improvements of those assets. 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. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the Authority has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks, credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting revenues for insurance recoveries

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Authority, however additional note disclosure can be found in Note 3. The implementation of GASB Statement No. 42 did not have an effect on the financial statements of the Authority.

3. DEPOSITS AND INVESTMENTS

State statutes classify moneys held by the Authority into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such moneys must be maintained either as cash in the Authority treasury, 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 no 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, which 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 moneys may be invested in the following securities:

A. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;

B. Bonds, notes, debentures, or any other obligations or securities 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;

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

D. Bonds and other obligations of the State of Ohio;

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

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

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 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 (FDIC). 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 year-end, the carrying amount of the Authority's deposits was $87,751 and the bank balance was $95,366. Federal depository insurance covered $95,366 of the bank balance.

Investments

The Authority's investments at of December 31, 2005 were as follows:

	Fair Value	Credit Rating	Maturity
U.S. Government Money Market Funds	$3,967,809	N/A	N/A
CDC Funding Corporation Guaranteed Investment Contracts (GIC)	4,000,000	N/A	5/15/2024
	$7,967,809		

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. 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.

4. CAPITAL ASSETS

The following summarizes the changes to capital assets during 2005.

Class	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	$ 8,987,940	$ 411,741	$ -	$ 9,399,681
Capital assets being depreciated:				
Office equipment	6,518	-	-	6,518
Buildings	7,203,877	-	-	7,203,877
Total cost	$16,198,335	$ 411,741	$ -	$16,610,076
Accumulated depreciation				
Office equipment	$ (5,569)	$ (345)	$ -	$ (5,914)
Buildings	(495,265)	(180,096)	-	(675,361)
Accumulated depreciation	$ (500,834)	$(180,441)	$ -	$ (681,275)
Net value	$15,697,501			$15,928,801

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 monthly principal payments on the Taxable State Loan Revenue Note in varying monthly amounts ranging from $25,222 beginning on January 1, 2006 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 monthly principal payments on the Taxable Project Development Revenue Bonds in varying monthly amounts ranging from $15,000 beginning on January 1, 2006 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
2006	$ 1,109,494
2007	1,195,561
2008	1,195,448
2009	1,182,798
2010	1,206,823
Thereafter	12,319,918
Total	18,210,042
Unearned income	(6,129,598)
Net investment in lease	$12,080,444

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 $115,000 in 2006 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 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. 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 $30,000 on May 15, 2006 to $305,000 on May 15, 2024. The bonds bear an interest rates ranging from 5 to 6.125 percent.

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 $120,000 on March 1, 2006 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
2006	$ 938,565
2007	931,164
2008	934,066
2009	931,971
2010	931,546
Thereafter	6,862,559
Total	11,529,871
Unearned income	(3,244,871)
Net investment in lease	$ 8,285,000

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 an initial loan of $2,475,000 loan 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 $318,649 on November 15, 2006 $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 provides that 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.

During 2004, the land sale 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 has received a total of $3,029,940 to enable financing the purchase of 121 acres that includes an equity infusion and additional costs.

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.

6. PROJECT RELATED DEBT OBLIGATIONS

For the year ended December 31, 2005, changes in the Authority's project related debt consisted of the following:

	Interest Rate	Balance January 1, 2005	Additions	Payments and Deletions	Balance December 31, 2005	Amount Due Within One Year
Relizon project:						
Taxable State Loan Revenue Note	2.5%	$5,707,667	$ -	$(302,667)	$5,405,000	$302,667
Taxable Development Revenue Bonds, Series 2001	8.75%	6,775,000	-	(180,000)	6,595,000	180,000
Parking garage project:						
Taxable Development Mortgage Revenue Bonds, Series 2001	variable currently 2.77%	3,020,000	-	(110,000)	2,910,000	115,000
Development Revenue Bonds Series 2004A	5.0%-6.125%	2,220,000	-	(60,000)	2,160,000	65,000
Burrows project						
Ohio DOD Taxable State Loan	5.35%	8,780,000	-	(455,000)	8,325,000	485,000
Austin Center project:						
Montgomery County TID Loan	0.0%	3,029,940	-	-	3,029,940	181,235
Taxable Development Revenue Bonds, Series 2004B	3.0%	5,075,000	-	-	5,075,000	318,649
Total		$34,607,607	$ -	($1,107,667)	$33,499,940	$1,647,551

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 estimated land sales):

	Relizon Project		Parking Garage Project	
Year ending December 31	Taxable State Loan Revenue Note	2001 Series Revenue Bonds	2001 Series Revenue Bonds	2004A Series Revenue Bonds
2006	$ 311,044	$ 769,625	$ 195,607	$ 184,962
2007	382,075	789,938	197,422	186,587
2008	403,819	768,938	204,097	183,087
2009	403,116	757,901	205,496	184,587
2010	402,395	783,656	211,757	185,712
2011 - 2015	2,000,506	3,798,806	1,123,828	919,687
2016 - 2020	2,487,423	3,910,391	1,275,591	921,666
2021 - 2025	-	-	277,479	869,844
Total	$6,390,378	$11,579,255	$ 3,691,277	$3,636,132

	Burrows Project	Austin Center Project		
Year ending December 31	DOD State Loan	Austin Center TID Loan	2004B Series Revenue Bonds	Total
2006	$ 920,758	$ 181,235	$ 367,872	$ 2,931,103
2007	914,409	394,096	735,744	3,600,271
2008	916,789	347,411	735,744	3,559,885
2009	917,565	357,912	735,744	3,562,321
2010	916,736	368,730	735,744	3,604,730
2011 - 2015	4,593,977	1,380,556	2,575,104	16,392,464
2016 - 2020	2,289,764	-	-	10,884,835
2021 - 2025	-	-	-	1,147,323
Total	$11,469,998	$3,029,940	$5,885,952	$45,682,932

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 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. The Authority has notified ODOD that payment of the annual amounts for 2004 and 2005 will be made after September 2006.

In addition, the Authority has obtained a $5,000,000 commercial line of credit for additional bond fund program purposes. As of December 31, 2005, no amounts of the line of credit have been utilized.

8. DEFINED BENEFIT PENSION PLANS

During 2004, certain personnel previously retained on a consulting bases became employees of the Authority. Those employees participate in the Ohio Public Employees Retirement System (OPERS) which administers three separate pension plans as described below:

- The Traditional Pension Plan - a cost sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan - 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 member and vested employer contributions plus any investment earnings.
- The Combined Plan - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS, provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits. The authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS, issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6701 or 800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Member and employer contribution rates were consistent across all three plans.

The 2005 member contribution rate was 8.5 percent. The 2005 employer rate was 13.55 percent. The Authority's required contributions to OPERS for the years ended December 31, 2005 and 2004 were $15,225 and $9,287. All of the required contributions were paid within the respective years.

9. OTHER POST-EMPLOYMENT BENEFITS

OPERS provides retirement, disability and survivor benefits as well as post-retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and the Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2005, employers contributed at a rate of 13.55 percent of covered payroll. The portion of employer contributions for all employers allocated to health care was 4.0 percent. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

Summary of Assumptions:

- **Actuarial Review -** The assumptions and calculations below were based on OPERS' latest actuarial review, performed as of December 31, 2004.

- **Funding Method -** An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and loses) becomes part of the unfunded actuarial accrued liability.

- **Assets Valuation Method -** All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

- **Investment Return.** The investment assumption rate for 2004 was 8 percent.

- **Active Employee Total Payroll.** An annual increase of 4 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4 percent base increase, were assumed to range from 0.5 to 6.3 percent.

- **Health Care.** Health care costs were assumed to increase 4 at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

OPEBs are advance-funded on an actuarially determined basis. At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined plans totaled 376,109. The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was 355,287. The portion of the Authority's contributions that were used to fund post-employment benefits for 2005 was $4,494. At December 31, 2004, the actuarial value of OPERS' net assets available for OPEB was $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $29.5 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. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into the Retiree Medical Account that can be used to fund future health care expenses.

10. 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.

11. ADJUSTMENT TO 2004 FINANCIAL STATEMENTS

The net asset balances as of January 1, 2004 have been restated from those previously reported to properly reflect amounts reported for leased project construction costs payable. This correction had the following effect on total net assets previously reported as of January 1, 2004:

Total net assets, January 1, 2004, as previously reported	$11,888,795
Correction for overstated leased project construction costs payable	212,400
Total net assets, January 1, 2004, as restated	$12,101,195

The adjustment had no effect on the amounts reported for changes to net assets for 2004.

The net asset balances as of December 31, 2004 have also been restated to reflect the recording of interest payable on the ODOD bond fund loan. These corrections had the following effect on total net assets previously reported as of December 31, 2004:

Total net assets, December 31, 2004, as previously reported	$11,147,579
Recording of interest payable at December 31, 2004	(25,000)
Correction for overstated leased project construction costs payable	212,400
Total net assets, December 31, 2004, as restated	$11,334,979

The adjustment to record interest payable increased the change in net assets from ($741,216) to ($766,216) for the year ended December 31, 2004.

Certain other amounts previously reported for the year ended December 31, 2004 have also been reclassified to conform to 2005's reporting for transactions between the Authority and the City of Dayton related to the tax increment financing agreement. These reclassifications had no effect on the amounts reported for net assets or the total change to net assets for 2004.

12. SUBSEQUENT EVENTS

During 2005, the Authority entered into agreements with DHL to provide construction management services and conduit debt financing for the $300 million expansion of DHL's air park in Wilmington, Ohio. The Clinton County Port Authority filed suit involving the rights to finance the deal.

In March 2006, State and regional development officials reached an agreement whereby Clinton County Port Authority will contract with the Dayton-Montgomery County Port Authority and DHL for the Dayton-Montgomery County Port Authority to proceed with the financing of the project. Authority officials anticipate the financing to be completed in late 2006.

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 (Authority) as of and for the year ended December 31, 2005 and have issued our report thereon dated May 30, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Bastin & Company, LLC

Cincinnati, Ohio
May 30, 2006

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 14, 2006