DAYTON MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2012

Dave Yost • Auditor of State

DAYTON MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY

TABLE OF CONTENTS

TITLE **PAGE**

This page intentionally left blank.

Dave Yost · Auditor of State

INDEPENDENT AUDITOR'S REPORT

Dayton-Montgomery County Port Authority
Montgomery County
8 North Main Street
Dayton, OH 45402-2400

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of Dayton-Montgomery County Port Authority, Montgomery County, Ohio (the Port Authority), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Port Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Port Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Port Authority's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Dayton-Montgomery County Port Authority, Montgomery County, Ohio, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, during the year ended December 31, 2012, the Port Authority adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter. Additionally, as discussed in Note 10 to the financial statements, the January 1, 2012 net position was restated. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2014, on our consideration of the Port 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port Authority's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

May 2, 2014

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(unaudited)

Our discussion and analysis of the Dayton-Montgomery County Port Authority's (the "Port Authority") financial performance provides an overview of the Port Authority's financial activities for the fiscal year ended December 31, 2012. Please review it in conjunction with the basic financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Total assets exceeded liabilities as of December 31, 2012 with the unrestricted position of the Port Authority actually being a deficit of $3,168,856. This represents a net position change of $4,159,448 (restated balance). The main reduction is how the Austin Parking Garage is accounted for on the Port Authority's financial statements. The Port Authority has an outstanding State Infrastructure Bank (the "SIB)" loan but does not report a capital asset since the parking garage is not operated by the Port Authority. This accounting treatment reflects a net position reduction of $3,610,000. Excluding this transaction, the Port Authority would show unrestricted net position of $441,144. Montgomery County has entered into an intergovernmental agreement with the Port Authority for $4,210,013 to repay the principal, interest and fees associated with the Port Authority's loan.

- The Port Authority maintains restricted cash and investment balances at December 31, 2012 total $6,554,133 in an agency fund. Of which $6,282,799 is maintained in the Regional Bond Fund trust accounts to service the Port Authority's projects.

- The Port Authority reflects debt balances of $50 million in the agency fund for projects the Port Authority was involved in that are supported with a financing lease receivable. Although the Port Authority reports these debt balances, the Port Authority has no financial responsibility for payment on these debts except for receiving the respective lease payments through the respective bank trustee.

- The Port Authority had operating revenues of $1,699,461 and operating expenses of $1,511,632 resulting in an operating income of $187,829 for 2012.

USING THIS ANNUAL REPORT

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

Management Discussion and Analysis
Basic Financial Statements
Statement of Net Position
Statement of Revenues, Expenses and Changes in Net Position
Statement of Cash Flows
Statement of Fiduciary Asset and Liabilities
Notes to Basic Financial Statements

The Port Authority is a single enterprise fund using proprietary fund accounting, which means these statements (non-fiduciary) are presented in a manner similar to 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 Port Authority's finances.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

Our analysis of the Port Authority as a whole begins here. One of the most important questions asked about the Port Authority's finances is "Is the Port Authority as a whole better off or worse as a result of the year's activities?" Although the net position decreased by $4.2 million, the answer is still yes as the Port Authority still has almost $0.5 million in operating (non-restricted) cash as just explained in the financial highlights, which is a slight decrease of $25,801 from 2011.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Port Authority as a whole, other than activity reported on the fiduciary (agency fund) statement and about its activities in a way that helps answer those two questions. These statements include all the assets and liabilities using the accrual basis of accounting.

These two statements report the Port Authority's *net position* and changes in them. One can think of the Port Authority's net position, the difference between assets (what the Port Authority owns) and liabilities (what the Port Authority owes) as one way to measure the Port Authority financial health, or *financial position*. Over time, *increases or decreases* in the Port Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. One will need to consider other nonfinancial factors, however, such as changes in the Port Authority's jurisdiction and the availability of capital projects to assess the overall health of the Port Authority.

Statement of Cash Flows

The Statement of Cash Flows provides information about the Port 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 Port Authority that are principally supported by fees.

Statement of Fiduciary Assets and Liabilities

The Statement of Fiduciary Assets and Liabilities reports the restricted cash held in the regional bond fund and the amount of pledged lease payments due from companies with debt issued through the regional bond fund. It also reports other debt maintained through trustees that are conduit debt (see summary of significant accounting policies) in nature, but with the accounts actually in the Port Authority's name.

These financial statements can be found on pages 9 through 12 of this report.

Notes to the Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found on pages 13-40 of this report.

FINANCIAL ANALYSIS OF THE PORT AUTHORITY

As stated previously, the Statement of Net Position looks at the Port Authority as a whole without regarding to the agency fund. The following table provides a summary of the Port Authority's net position for 2012 compared to 2011.

Net Position (in thousands)

	Restated 2011	2012	Change
Current Assets	$2,195	$4,680	$2,485
Restricted Assets	637	1,025	388
Capital Assets	30,103	29,416	(687)
Total Assets	32,935	35,121	2,186
Current Liabilities	2,229	1,033	(1,196)
Long Term and Other Liabilities	25,719	29,051	3,332
Total Liabilities	27,948	30,084	2,136
Deferred Inflow of Resources	0	4,210	4,120
Net position:			
Net Investment in Capital Assets	4,417	3,996	(421)
Unrestricted (Deficit)	570	(3,169)	(3,739)
Total Net Position	$4,987	$827	($4,160)

The 2011 amounts were restated for the implementation of GASB 65 that requires bond issuances costs to be expensed in the current year or removed if previously reported as an asset. The Port Authority also had previously reported the related trust fund information for projects such as STEM, Clopay, Maverick, Materion Brush, Relizon and Burrows buildings within the statement of net position in the prior year. After extensive review and research, the Port Authority determined those assets and liabilities are custodial in nature and should be reported within an agency fund.

Unrestricted net position, which is the portion of net position that can be used to finance the day-to-day operations without constraints established by debt covenants or other legal requirements, decreased by $3.74 million in 2012. A small part of the decrease can be attributed to operational deficiency of the Patterson garage that the Port Authority operates. The Port also recorded the $3.6 million due on the SIB loan for the Austin Landing Garage. Although this loan is guaranteed and paid by Montgomery County, it directly impacts our net position by $3.6 million. The Port Authority's ability to continue in the future is contingent upon its ability to finance projects in the coming years.

The following tables look at the change in the Port Authority's revenues and expenses from 2011 to 2012.

Statement of Activities (in thousands)

	2011	2012	Change
Fee revenue	$1,223	$1,640	$417
Other revenue	27	59	32
Total operating revenue	1,250	1,699	449
Salaries and benefits	72	69	(3)
Operating expenses	314	710	396
Payments in lieu of real estate taxes	45	45	0
Depreciation	687	687	0
Total Operating expense	1,118	1,511	393
Tax increment financing – City of Dayton	218	219	1
Capital Grants	0	(3,600)	(3,600)
Interest income	1	1	0
Interest expenses	(645)	(1,155)	(510)
Total nonoperating revenues and expenses	(426)	(4,535)	(4,109)
Net transfers with agency fund	0	188	188
Change in Net Position	(294)	(4,159)	(3,865)
Beginning Net Position – restated	5,281	4,987	(294)
Ending Net Position	$4,987	$827	($4,159)

The Port Authority saw activity increase on the project financing side with the Abbott Laboratories, White Castle, and Connor Group administration fees resulting in larger project fees. Operating expenses increased as the Port Authority had more activity during 2012 as a result of those projects. The capital grants for 2012 relate to the construction of the Austin Landing parking garage referred to above.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Port Authority reports as capital assets in the enterprise fund the two parking garages (Patterson and Main Street) where the Port Authority holds title and ownership, with an operating agreement in place. See note 3 for additional information on the Port Authority's capital assets.

Debt reported in the enterprise fund

The Port Authority has a long term liability due to the City of Dayton in relation to the Main Street Garage project, which decreased by $16,757 during 2012 as a total of $890,514 in net revenues were paid to the City. This liability is limited to the revenues generated from the Main Street Garage. The Port Authority also has two outstanding revenue bonds in relation to the Patterson Parking garage totaling $3,580,000 at December 31, 2012. Debt service on one of the bonds is paid a guaranteed investment contract. The other bond is paid through tax increment financing revenue. The Port Authority in 2012 received a SIB loan $3,610,000 for the Austin Landing Parking garage. This obligation is guaranteed and paid by Montgomery County.

Debt reported in the agency fund

As discussed in the highlights, the Port Authority's long term debt issuances maintained in the agency fund are $50 million in non-recourse revenue bonds. The Port Authority only issues non-recourse obligations for which the company maintains the liability for repayment. For more information on the Port Authority's conduit debt balances see note 11 of the financial statements.

ECONOMIC FACTORS

After several years of slowing economics for the community, Montgomery County saw increased development activity. The southern portion of the County is benefiting from the newly opened Austin Interchange increasing taxable valuation by $82 million because of developments including Austin Landing, Motoman Enterprises, Miamisburg Industrial Park, and Springboro's Tech Park. The County has also seen expansion in areas such as Butler Township along the I70/I75 corridor and the City of Huber Heights is working on expansions along their respective interchanges.

After seeing the unemployment rate for 2009 reach 11.6 percent in the County, the rate declined to 7.0 percent at the end of 2012.

Request for Information

The financial report is designed to provide a general overview of the Port Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Dayton-Montgomery County Port Authority, 8 North Main Street, Dayton, Ohio 45402-2400.

This page intentionally left blank

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS:		
CURRENT ASSETS:		
Cash and investments	$	470,557
Intergovernmental Receivable		4,210,013
Total current assets		4,680,570
RESTRICTED ASSETS:		
Restricted cash and investments		400,582
Restricted cash and investments with trustee		624,541
Total restricted assets		1,025,123
CAPITAL ASSETS:		
Land and land improvements		5,943,337
Parking Garages		27,481,337
Office Equipment		6,518
Total		33,431,192
Less: Accumulated Depreciation		(4,015,330)
Total capital assets, net		29,415,862
TOTAL ASSETS	$	35,121,555
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	$	754,536
Current portion of long term debt:		
Relizon project Development Revenue Bonds, Series 2001		170,000
Parking garage project Development Revenue Bond, Series 2004A		90,000
Main Street Garage		18,258
Total current liabilities		1,032,794
LONG TERM AND OTHER LIABILITIES		
Revenue bonds, notes and loans:		
Relizon project Development Revenue Bonds, Series 2001		1,780,000
Parking garage project Development Revenue Bond, Series 2004A		1,540,000
Main Street Garage		21,821,290
SIB Loan Payable		3,610,000
Reimbursable deposits		300,000
Total long term and other liabilities		29,051,290
TOTAL LIABILITIES		30,084,084
DEFERRED INFLOWS OF RESOURCES:		
Intergovernmental Grant		4,210,013
TOTAL DEFERRED INFLOWS OF RESOURCES		4,210,013
NET POSITION:		
Net Investment in Capital Assets		3,996,314
Unrestricted (Deficit)		(3,168,856)
TOTAL NET POSITION	$	827,458

See accompanying notes to the financial statements

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES:		
Port fees	$	403,231
Parking garage fees		1,236,634
Other revenues		59,596
Total Operating Revenues		1,699,461
OPERATING EXPENSES:		
Salaries and benefits		69,474
Operating expenses		710,495
Payments in lieu of real estate taxes		44,631
Depreciation		687,032
Total Operating Expenses		1,511,632
OPERATING INCOME		187,829
NONOPERATING REVENUES (EXPENSES):		
Tax increment financing provided by City of Dayton		218,447
Capital Grants to Developers		(3,600,000)
Interest income		1,506
Interest and fiscal charges		(1,154,792)
Total Nonoperating Revenues (Expenses)		(4,534,839)
INCOME (LOSS) BEFORE TRANSFERS		(4,347,010)
TRANSFERS		
Transfers in from Agency Fund		187,588
Transfers out to Agency Fund		(26)
Total Transfers		187,562
CHANGE IN NET POSITION		(4,159,448)
Net Position Beginning of Year (Restated)		4,986,906
Net Position End of Year	$	827,458

See accompanying notes to the financial statements

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

Cash flows from operating activities:		
Cash received from customers	$	1,639,865
Cash payments to employees for services		(71,343)
Cash payments to supplier for goods and services		(712,417)
Cash received from other sources		73,096
Net cash provided by operating activities		929,201
Cash flows from capital related activities:		
Retirement of debt		(266,757)
Interest paid		(1,094,792)
Net cash used for capital financing activities		(1,361,549)
Cash flows from noncapital related activities:		
Transfers to Agency Fund		(26)
Transfer In from Agency Fund		127,588
Payment in Lieu of Taxes		218,447
SIB Loan Receipts		3,600,000
Grant to Developer		(3,600,000)
Net cash provided for capital financing activities		346,009
Cash flows from investing activities:		
Interest received		1,506
Net decrease in cash and investments		(84,833)
Cash and cash equivalents at beginning of year - restated		1,580,513
Cash and cash equivalents at end of year	$	1,495,680
Reconciliation of operating income to net cash provided by operating activities		
Operating Income		187,829
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		687,032
Changes in assets and liabilities:		
Decrease in accounts receivable		13,500
Increase in accounts payable		40,840
Net cash provided by operating activities	$	929,201

See accompanying notes to the financial statements

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
DECEMBER 31, 2012

		Totals
Assets:		
Cash and Cash Equivalents		
in Restricted Accounts	$	6,554,133
Financing Leases Receivable		62,469,872
Total Assets	$	69,024,005
Liabilities :		
Liabilities:		
ODOD Loan Payable	$	1,000,000
Restricted Grant due to the Port Authority		3,386,634
Interest and Fees Payable		14,645,915
Revenue Bonds Payable		49,991,456
Total Liabilities	$	69,024,005

See accompanying notes to the basic financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The Port Authority provides services that are enumerated in Sections 4582.31 of the Ohio Revised Code. The services include but are not limited to the power to finance, purchase, construct, reconstruct, enlarge, improve, equip, develop, sell, exchange, lease, convey other interest in, and operate Port Authority facilities.

The accompanying basic financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units,* in that the financial statements include all divisions and operations for which the Port 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 the 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 Port Authority itself is included in the financial reporting entity.

The purpose of the Port is to facilitate economic and community development in the Dayton Region. The operating policy and practice of the Port has been to be financially self-sustaining. To that end, the Port's policy and practice, is, and has been from its inception, to limit its financial exposure to individual projects, by utilizing one or more of the following approaches: full financial, operating and legal indemnification by project beneficiary; bond issuances supported by financing leases and or credit enhancement, wherein the beneficiary/tenant is responsible for all debt service and operating expenses; strict limitation of financial liability to individual project revenues; and guaranty of debt service by another unit of government, with all operating expenses the responsibility of the tenant/beneficiary. In conclusion, the Port Authority never takes credit risk on behalf of a conduit borrower and has no credit risk to Bond Fund borrowers, beyond resources previously pledged in 2004 to the Bond Fund reserves.

Basis of Accounting

The Port Authority's activities are financed and operated as a single enterprise fund, other than activity related to bond financings either through the bond fund issues or other trust activity that are fiduciary in nature and reported in an agency fund, such that the costs and expenses, of providing the services are recovered primarily through administrative fees. The enterprise fund 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 Port Authority's financial transactions are recorded on the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

Fiduciary (agency) fund reporting focuses on net position and changes in net position. As defined by GAAP, the fiduciary fund category is split into four classifications: private purpose trust funds, pension trust funds, investment trust funds and agency funds. The Port Authority maintains a fiduciary agency fund for its projects that are issued through the Regional Bond Fund, or other stand alone issuances where the Port Authority has a financing lease receivable. Examples of such projects are Relizon, Burrows, Clopay, STEM School, Maverick, Materion Brush and White Castle. The Port Authority's agency fund is custodial in nature and does not involve the measurement of results of operations.

Investments

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

Statement of Cash Flows

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

Capital Assets

The Port Authority defines capital assets as follows:

- Land assets will always be capitalized without regard to costs and not depreciated.
- Infrastructure assets will be capitalized if it has a life expectancy of five (5) years or greater and a designated value exceeding $300,000
- Assets other than land or infrastructure will be capitalized if the asset has a useful life of two (2) years or more and a designated value exceeding $5,000.

Capital assets are stated at historical cost. Donated capital assets are recorded as estimated fair 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 retirement during the year. Interest incurred during construction is capitalized until substantial completion of the project.

Restricted Assets and Related Liabilities

Bond indentures and other agreements require portions of debt proceeds as well as other resources of the Port Authority to be set aside for various purposes. These amounts are reported as restricted assets on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities. The liabilities that relate to the restricted assets are included in other liabilities in the same statement. The Port Authority also reports restricted cash for the balance maintaining in the Main Street Garage account ($100,582). The City of Dayton provides a monthly review of the Port Authority's expenses in that account. The Port Authority received $300,000 from Development Projects, Inc. in September 2007 as a reserve for the Renegade project and reports a restricted assets and liability for the amount.

Budgetary Accounting and Control

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

The Port Authority maintains budgetary control by not permitting total capital expenditures and accounts charges to individual expense categories to exceed their respective appropriations without an 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 Port Authority. Revenues and expenses 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 Port 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 service payments in lieu of taxes received from adjoining office building. The Port Authority recognizes as tax increment financing (nonoperating) revenue, equal to the debt payment of the bonds made by the City of Dayton on behalf of the Port Authority within the enterprise fund.

Net Position

Total net position represents the difference between assets and liabilities. Net position - net investment in capital assets, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowing, or portion of a borrowing, used for the acquisition, construction or improvement on those assets. Net position is reported as restricted when there are limitations imposed on their use through enabling legislation adopted by the Port Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Port Authority did not have any restricted net position at December 31, 2012.

The Port Authority applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available.

Interfund Activity

During the course of normal operations, the Port Authority has numerous transactions between activities. Interfund transactions are generally classified as follows:

Transfers are reported as “Transfers to” and “Transfers from” in the enterprise funds for activity occurring between the operating activity and the agency fund activities.

Conduit Debt

The Port Authority issues conduit debt on behalf of other entities, whether public entities or private companies, whether taxable or tax exempt. The Port Authority is contractually protected from liability related to these issues. For purposes of the financial statements, the various conduit debts of the Port Authority are classified in three different manners, depending on applicable accounting rules. First, a completely “off book” issuance where the Port Authority has issued the debt in name only on behalf of a private company, or organization. These are disclosed in Note 8. Second, bond issuances that involve a lease receivable where the company is completely responsible for making payments to a trustee for payment of principal, interest and related fees on the debt issued in the Port Authority’s name. These are disclosed in Note 11 and reported within the Agency Fund statements.

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

State statutes classify monies held by the Port Authority into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Active deposits must be maintained either as cash by the Port 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 the Port 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 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 five year from the date of deposit or by savings accounts, including passbook accounts.

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

- 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 principal and interest by the United States;

- 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;

- 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; and

- Bond and other obligations of the State of Ohio;

- 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; and,

- 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 Port 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 Port Authority's deposits may not be returned. Protection of the Port Authority's cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC) as well as qualified securities pledges by the institutions 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 Port Authority places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by FDIC. The securities pledged as collateral are pledged to a pool for each individual financial institution in amount equal to at least 105 percent of the carrying value of all public deposits held by each institution that are not covered by FDIC. Obligations that may be pledged as collateral are limited to obligation 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, 2012, the carrying amount of the Port Authority's deposits was $1,271,637 and the bank balance was $1,284,724. FDIC insurance covered $643,667 of the bank balance with the remaining balance collateralized by PNC Bank, Chase Bank and US Bank.

Investments

The Port Authority's investments as of December 31, 2012 reported in the enterprise fund were as follows:

	Fair Value	Credit Rating	Maturity
U.S Government Money Market Funds	$224,043	N/A	<60 days
Total Investments	$224,043		

The Port Authority's investments as of December 31, 2012 reported in the agency fund were as follows:

	Fair Value	Credit Rating	Maturity
U.S Government Money Market Funds	$2,554,133	N/A	<60 days
CDC Funding Corporation Guaranteed Investment Contracts (GIC)	4,000,000	N/A	5/15/2024
Total Investments	$6,554,133		

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 Port Authority, and that an investment must be purchased with the expectation that it will be held to maturity. The Guaranteed Investment Contracts are matched to obligations within the Bond Fund Program.

Concentration of Credit Risk – The Port Authority places no limit on the amount the Port Authority may invest in one issuer. As of December 31, 2012, of the Port Authority's total Enterprise Fund investments, 100 percent in U.S Government Money Market Funds and of the Port Authority's total Agency Fund investments, 38.97 percent are in U.S Government Money Market Funds and 61.03 percent are in Guaranteed Investment Contracts. The Port Authority's investment in the Guaranteed Investment Contract is considered a direct contractual investment and not considered securities exposed to custodial risk.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port 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 not exposed to custodial credit risk is considered a direct contractual investment and not considered securities exposed to custodial risk. The Port 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 investment to the Port Authority or qualified trustee.

3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2012, was as follows:

	Restated Balance 12/31/2011	Increases	Decreases	Balance 12/31/2012
Cost				
Land and Improvements	5,943,337	$0	$0	5,943,337
Parking Garages	27,481,337	0	0	27,481,337
Office equipment	6,518	0	0	6,518
Total Cost	33,431,192	0	0	33,431,192
Accumulated depreciation				
Parking Garages	(3,321,780)	(687,032)	0	(4,008,812)
Office equipment	(6,518)	0	0	(6,518)
Total Accumulated depreciation	(3,328,298)	(687,032)	0	(4,015,330)
Net Capital Assets	$30,102,894	($687,032)	$0	$29,415,862

The Port Authority reports a significant amount of capital assets within the enterprise fund. The parking garages in the name of the Port Authority will remain with the Port Authority after final payment on the respective debt obligation.

4. PROJECTS

Relizon (Workflow One) Company Headquarters Project (Agency Fund reported)

During 2001, the Port Authority financed the construction of a commercial office building for the headquarters of the Relizon Company. Land for the project was granted to the Port Authority by the City of Dayton with a value of $1,833,000. The Port 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 Revenues Bonds, Series 2001, dated May 18, 2001.

The Port Authority is to make monthly principal payments to the Taxable State Loan Revenue Note in varying monthly amounts ranging from $25,712 beginning on February 1, 2013 to $30,389 on February 1, 2017. A balloon payment of $2,000,000 is also due on March 1, 2017. The note carried no interest through March 31, 2007. Effective April 1, 2008, the notes carried a rate of 2.5 percent. The note is secured by the property and rental payments to be received under the lease with Relizon (now Workflow One) as well as a residual value insurance contract covering balloon payments due on the debt as discussed below.

Annual debt service requirements to maturity for note are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$311,462	$80,926
2014	319,339	73,050
2015	327,414	64,974
2016	359,112	56,500
2017	2,061,824	8,526
Total	$3,379,151	$283,976

The Port Authority is to make monthly principal payments on the Taxable Project Development Revenue Bonds in varying monthly amounts ranging from $30,000 beginning on April 1, 2012 to $40,000 on January 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 residual value insurance contract covering balloon payments due on the debt as discussed below.

Annual debt service requirements to maturity for bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$360,000	$399,000
2014	395,000	366,734
2015	420,000	330,531
2016	470,000	311,709
2017	3,080,000	48,682
Total	$4,725,000	$1,456,656

The Port 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 Port 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 Port 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. This lease was assigned to Workflow One as of January 21, 2011.

The Port Authority accounts for the lease 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 future lease payments to be received, including proceeds from the residual value insurance contract, and the Port Authority's net investment in the lease are as follows:

Fiscal Year Ending December 31,	Total
2013	$1,173,725
2014	1,179,055
2015	1,160,425
2016	1,206,406
2017	5,134,531
Total	$9,854,142

Patterson Street Parking Garage Facility Project (Enterprise Fund reported)

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

Land for the project was granted to the Port Authority by the City of Dayton with a value of $1,725,000. The Port Authority issued $3,225,000 in Taxable Project Development Mortgage Revenue Bonds, Series 2001, dated May 1, 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, which were reissued as $2,235,000 Development Revenue Bond Series 2004A as described below.

On July 14, 2004 the Port Authority issued $2,235,000 of twenty year Project Development Revenue Bonds, Series 2004A, to fund appropriate reserves, pay the cost of issuance and refund the Bond Anticipation Note. The Port Authority is to make semi-annual principal payments on the Project Development Revenue Bonds, Series 2004A, in semi-annual amounts ranging from $90,000 on May 15, 2013 to $305,000 on May 15, 2004. The bonds bear interest rates ranging from 5 to 6.125 percent.

Annual debt service requirements to maturity for bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$ 90,000	$ 93,088
2014	95,000	88,588
2015	100,000	83,713
2016	105,000	78,713
2017	110,000	73,338
2018-2022	665,000	259,088
2023-2024	465,000	35,372
Total	$ 1,630,000	$ 711,900

Principal payments on the Taxable Project Development Mortgage Revenue Bonds, Series 2001, are due on December 1, in varying amounts ranging from $170,000 in 2013 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 investment in the City of Dayton's investment portfolio on those dates. See previously described tax increment financing from the City of Dayton.

Annual debt service requirements to maturity for bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$170,000	$54,015
2014	180,000	49,306
2015	190,000	44,320
2016	205,000	39,057
2017	215,000	33,379
2018-2021	990,000	70,636
Total	$ 1,950,000	$ 290,713

Burrows Paper Corporation Project (Agency Fund reported)

During 2003, the Port Authority financed the construction of a 275,000 square foot manufacturing building in Franklin, Ohio for the Burrows Paper Corporation and the Port Authority owns the building. 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 $170,000 on March 1, 2013 to $225,000 due June 1, 2018, and bear 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.

Annual debt service requirements to maturity for bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$ 700,000	$ 218,882
2014	740,000	180,629
2015	780,000	140,237
2016	820,000	97,704
2017	860,000	53,032
2018	450,000	9,028
Total	$ 4,350,000	$ 699,512

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

The Port 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 Port Authority for the Ohio Department of Development Taxable State Loan plus administrative charges and port fees.

The future lease payments to be received and the Port Authority's net investment in the lease are as follows:

Fiscal Year Ending December 31,	Total
2013	$919,094
2014	920,664
2015	920,093
2016	917,382
2017	914,198
2018	382,021
Total	$4,973,452

CareSource Management Group Project (Agency Fund reported)

During May 2007, the Port 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 Port 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.

On May 1, 2009, a Confirming and Indemnification Agreement was entered into to establish the resolution of the outstanding balances maintained in the various bond fund accounts for the above debts. The agreement assigned a portion of unused proceeds to transfer to a trustee for pre-payment of balances under the Series 2007A Bond issue upon reaching bond call criteria. On October 2, 2012 Caresource provided “Notice of Full Redemption to the Bond Holders” on the Series 2007A bonds. Caresource retired $37,935,000 of outstanding Series A bonds through private issuance and removed the liability and assets associated with Port Authority. Caresource retired $13,795,000 of outstanding Series B bonds through private issuance and removed the liability and assets associated with Port Authority. Caresource retired $6,366,667 of outstanding Taxable State Loan Revenue Notes through private issuance and removed the liability and assets associated with Port Authority.

The Port Authority had 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 were scheduled to meet the debt service requirements of the Port Authority and other costs and expenses due to the Port Authority through November 1, 2028. The lease was terminated through the repayment by CareSource Management Group and they own the facility.

Main Street Parking Garage (Enterprise Fund reported)

In conjunction with the CareSource Management Group project, during 2007 the Port Authority began construction of a seven story parking garage in downtown Dayton to be owned and operated by the Port Authority. CareSource Management Group agreed to rent 900 spaces for 20 years with an option to re-negotiate rental rates after 10 years. The number of spaces has since leased to Caresource has since increased to 1050.

As of December 31, 2012, $24,495,798 of cost has been capitalized, including $4,218,338 of land and $20,277,460 of construction costs. Funding of $21,100,000 under the financing arrangement has been provided by the City of Dayton as of December 31, 2012. The amount funded is reflected on the statement of net position as a payable to the City of Dayton less the amount repaid against the obligation plus accrued interest added to the principal. Construction of the garage was completed in December 2008.

During January 2008, the City of Dayton issued economic development revenue bonds and entered into a loan agreement with the Port Authority for the permanent funding of the project. The City of Dayton and Port agreed to repay the loan from garage net revenues. For 2012, the Port paid $890,514 to the City of Dayton in net revenues. $16,757 of this amount was applied towards principal payments.

The Port Authority is not paying the full principal payments to the City of Dayton in connection with the Main Street Garage Project. Per the loan agreement between the City of Dayton and Port Authority, dated January 10, 2008, the City of Dayton could declare all loan payments due in the event of default. During 2012, the City of Dayton has waived this covenant. If the City of Dayton rescinds the waiver of this covenant violation, then the full balance of the loan may be due at that time. The amount outstanding at December 31, 2012 is $21,839,548.

The Port Authority’s obligation for this payable is limited to its revenues from the garage, net of operating expenses.

Austin Landing Parking Garage (Enterprise Fund reported)

The Port Authority received a loan from the State Infrastructure Bank for $3,610,000 as a partial funding source to pay of the parking garage being constructed by RG Properties at the Austin Landing project. The Port Authority has received $3,600,000 as of December 31, 2012 and provided the proceeds to RG Properties as a grant. The Port Authority has entered into an intergovernmental agreement with Montgomery County to provide the Port Authority all necessary funds to repay the SIB loan together with any interest. The Port Authority was also involved in the issuance of $800,000 Recovery Zone Bonds and $1,500,000 Recovery Zone Bond both purchased by PNC Bank and loaned to RG Properties in relation to the Parking Garage and retail development. These bonds are conduit in nature with RG Properties making payments directly to the bank.

Annual debt service requirements to maturity for loan are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$ 0	$ 0
2014	201,312	55,775
2015	411,728	102,172
2016	424,173	89,354
2017	436,993	76,148
2018-2022	2,135,794	168,264
Total	$ 3,610,000	$ 491,713

Abbott Labs (Conduit not reported on financial statements)

During 2012, the Port Authority entered into agreements with Jobs Ohio and the Ohio Department of Development to assist Abbott Labs in a conduit capital lease structure. Abbott Labs constructed approximately a 246,000 square foot manufacturing facility located on 60 acres in Tipp City, Ohio. Total project costs were estimated at $64 million. The Port Authority agreed to issue up to $60,380,000 in conduit bonds for the project that were purchased by Abbott Labs itself. Abbott Labs have paid off the lease and retired the bond and this project is closed as of 2013.

Connor Group (Agency Fund reported)

During 2012, the Port Authority borrowed on behalf of The Connor Group, A Real Estate Investment Firm, LLC $8,350,000 in State Economic Development Revenue Bonds. The bonds are being used to finance a portion of the costs of constructing, equipping and furnishing an approximately 39,000 square foot office facility located in Miami Township, Ohio just south of the City of Dayton. The Connor Group entered into a financing lease with the Port Authority to service the respective debt obligations on this project. The initial principal payment will start in September 2014 and terminate in May 2027.

Annual debt service requirements to maturity for bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$ 0	$ 351,953
2014	125,000	351,953
2015	510,000	338,728
2016	535,000	316,810
2017	555,000	293,944
2018-2022	3,155,000	1,091,685
2023-2027	3,470,000	357,801
Total	$ 8,350,000	$ 3,102,874

White Castle (Agency Fund reported)

On October 31, 2012, the Port Authority borrowed on behalf of White Castle Distributing LLC $9,850,000 in State Economic Development Revenue Bonds at approximately a 2.85% interest rate with a final maturity of December 1, 2027. The Port Authority received a $2,000,000 State of Ohio 166 loan at a 3% interest rate with a final maturity of November 15, 2027. The proceeds from the bonds and loans are being used to finance a portion of the costs of acquisition and constructing, of an approximately 74,000 square foot frozen food manufacturing facility located in Vandalia, Ohio just north of the City of Dayton. White Castle entered into a financing lease with the Port Authority to service the respective debt obligations on this project. The initial principal payment will start in June 2014 and terminate in December 2027.

Annual debt service requirements to maturity for bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$ 0	$ 281,456
2014	600,000	279,769
2015	605,000	273,019
2016	615,000	265,769
2017	620,000	256,731
2018-2022	3,385,000	1,007,038
2023-2027	4,025,000	363,031
Total	$ 9,850,000	$ 2,726,813

Sherman Dixie (Conduit not reported on financial statements)

In 2005, the Port Authority issued $3,500,000 Facilities Revenue Bonds and loaned the proceeds to Sherman-Dixie, a concrete products manufacturer who purchased a plant in Dayton and proposed to use the fund to renovate and update the facility. The bonds have a twenty year term and payable as a bullet payment with the final payment in December 2025.

STEM School (Agency Fund reported)

The Port Authority issued $5,000,000 in qualified school construction bond designated as Taxable Development Revenue Bonds (Dayton Regional Bond Fund) Series 2011A (Dayton Regional STEM School) (the "Dayton Bonds"). The proceeds of the Bonds were used for the acquisition, construction, equipping, improvement, and installation of "port authority facilities" as defined in Sections 4582.01 and 4582.22, Ohio Revised Code, and consistent with the intended purposes pursuant to Section 54F of the Internal Revenue Code, consisting of a school facility to be owned by the Port Authority, leased by such Contracting Party to the Dayton Regional STEM Schools, Inc., and located in Kettering, Ohio.

The Port Authority is to make monthly principal payments on the Bonds, Series 2011A, in varying monthly amounts ranging from $110,000 beginning on May 15, 2013 to $1,425,000 on November 15, 2025. The bonds bear an interest rate of 5.5 percent and are secured by the property and rental payments to be received under the lease with the Dayton Regional STEM Schools through November 15, 2025. The Port Authority is receiving an interest subsidy of 5.41 percent from the U.S Treasury.

Annual debt service requirements to maturity for bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$225,000	$256,850
2014	230,000	244,338
2015	230,000	231,688
2016	235,000	219,038
2017	260,000	205,700
2018-2022	1,370,000	810,975
2023-2025	2,175,000	297,550
Total	$4,725,000	$2,266,138

Renegade (Agency Fund reported)

On September 1, 2007 the Port Authority issued Development Revenue Bonds from the Regional Bond Fund for acquisition and construction of facility guaranteed by Maverick. The bonds were issued at a 5.125% interest rate with a final maturity on May 15, 2022.

Annual debt service requirements to maturity for bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$155,000	$95,197
2014	165,000	87,125
2015	175,000	78,541
2016	185,000	69,444
2017	195,000	59,834
2018-2022	1,020,000	135,684
Total	$1,895,000	$525,825

Clopay (Agency Fund reported)

On October 25, 2006 the Port Authority issued a $1,500,000 Taxable Development Revenue Bond at 6.25% interest rate from the Regional Bond fund for acquisition/rehabilitation of former Panasonic facility for expansion and consolidation of Clopay manufacturing capacity. The final maturity on the bond is November 15, 2021. The Port Authority also received an Ohio Enterprise Bond Fund loan of $7,790,000 at approximately 5.89% interest rate with a final maturity of December 1, 2021. The Port Authority also received a State of Ohio 166 loan of $5,000,000 at 3% interest rate for the project with a final maturity of October 15, 2021. The various bonds/loans are guaranteed by Griffin Corporation.

Annual debt service requirements to maturity for revenue bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$ 90,000	$ 68,281
2014	100,000	62,500
2015	105,000	56,250
2016	115,000	49,531
2017	120,000	42,188
2018-2021	585,000	85,938
Total	$ 1,115,000	$ 364,688

Annual debt service requirements to maturity for taxable bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$ 490,000	$ 324,760
2014	525,000	295,089
2015	555,000	263,504
2016	590,000	230,078
2017	630,000	194,444
2018-2021	2,905,000	377,844
Total	$ 5,695,000	$ 1,685,719

Annual debt service requirements to maturity for loans are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$334,508	$95,395
2014	344,683	85,220
2015	355,166	74,736
2016	365,969	63,934
2017	377,100	52,802
2018-2021	1,554,879	93,058
Total	$3,332,305	$465,145

Dayton Legal Blank (Agency Fund reported)

On May 3, 2006, the Port Authority issued $2,095,000 Development Revenue Bonds for the acquisition of two high speed, 10 color Zeikon presses. The bonds were issued at 4.75% interest rate with a final maturity of November 15, 2015. During the year, Dayton Legal Blank was unable to pay the required debt service and their required reserve was used to make the debt service payments. The remaining principal and interest payments of $210,985 were paid from Regional Bond Fund reserves during 2012. In January 2013, $811,220 of the Regional Bond Fund reserves were used to retire the remaining Development Revenue Bonds and accrued interest.

Materion Brush (Agency Fund reported)

On April 9, 2011, the Port Authority issued a $2,000,000 Taxable Development Revenue Bond, at an interest rate of 4.9%, with a 10 year maturity. At the same time, the Toledo Lucas County Port Authority (TLCPA) issued an $8,000,000 bond of the same type, on the same terms. $2,000,000 of the TLCPA issuance was then used to purchase (Dayton) Port Authority's issuance. The remaining proceeds of the TLCPA issuance, and the proceeds of the Port Authority issuance, $8,000,000 in total, were then lent on identical terms, parri passu, to Materion Brush for an expansion and upgrade of its operating capacity.

Annual debt service requirements to maturity for bonds are as follows:

	Annual Payments	
Year	Principal	Interest
2013	$ 150,000	$ 85,628
2014	160,000	78,155
2015	170,000	70,193
2016	180,000	61,740
2017	190,000	52,798
2018-2021	935,000	108,045
Total	$ 1,785,000	$ 456,558

5. DEFINED BENEFIT PENSION PLAN

All full-time employees of the Port 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) 466-8025 or 800-222-7377.

For the year ended December 31, 2012, the members of all three plans were required to contribute 10 percent of their annual covered salaries. The Port Authority's contribution rate for 2012 was 14 percent. The Ohio Revised Code provides statutory authority for member and employer contributions. The Port Authority's total required contributions for the years ended December 31, 2012, 2011, and 2010 were $5,808, $4,998, and $3,431 respectively. The full amount has been contributed for 2012, 2011, and 2010.

6. OTHER POSTEMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (OPERS) maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Tradition 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 Tradition Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefits is available. The health care coverage provided by the retirement system meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Port Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employees to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post-Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the 2012 year, 4% was used to fund health care (.2857 of actual contributions). The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Port's actual contributions for 2012, 2011, and 2010 that were used to fund OPEB were $2,403, $3,234, and $2,009 respectively.

7. RISK MANAGEMENT

The Port 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 Port Authority has obtained commercial insurance for comprehensive property and general liability, employee bonding, auto insurance and specific property insurance for the Main Street and Patterson Street Parking Garages. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the last three years. There has not been a significant reduction in coverage from the prior year.

8. CONDUIT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

The following table provides the latest available information for the Port Authority's conduit (non-recourse full indemnification) debt outstanding:

	Issue		Maturity	12/31/2012
Issue Name	Amount	Date	Date	Balance
Sherman Dixie	$3,500,000	10/31/2005	12/01/2025	$3,500,000
Austin Landing Recovery Zone Bonds (parking garage)	800,000	12/13/2010	12/01/2020	723,333
Austin Landing Recovery Zone Bonds (retail)	1,500,000	12/13/2010	12/01/2020	1,356,250
Abbott Labs	70,000,000	05/01/2012	05/01/2021	70,000,000
White Castle 166 loan	2,000,000	10/31/2012	11/15/2027	2,000,000

9. NEW ACCOUNTING PRINCIPLES/RESTATEMENT OF BEGINNING NET POSITION

The Port Authority implemented GASB 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" and GASB 65 "*Items Previously Reported as Assets and Liabilities.*" The new statements eliminated the reporting of bond issuances costs, other than prepaid insurance, as an asset of the Port Authority. The Port Authority had reported $4,846,005 in bond issuances for fiscal year 2011. The implementation adjusted the fiscal year 2011 ending net position from $13,950,929 to $9,104,924.

10. CHANGE IN ACCOUNTING POLICY AND RESTATEMENT OF BEGINNING NET POSITION

The Port Authority reclassified the activity reported in the Port Authority's regional bond, Relizon and Burrows obligations and lease activity from the statement of net position in fiscal year 2011 to an agency fund for fiscal year 2012. The Port Authority has several accounts maintained with a trustee for the benefit of the companies that financed their respective projects through the regional bond fund. The Port Authority also reported certain debt obligations related to the projects but the Port Authority is held harmless from recourse if the borrower does not pay. The trust indenture of the Dayton Regional Bond Fund limits liability to the reserves of the Dayton Regional Bond Fund. These changes resulted in a net decrease to net position from the restated amount calculated in note 9 from $9,104,924 to $4,986,906.

11. AGENCY FUND

Financing Leases Receivable

The Port 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 Port 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 for the lessee an option to purchase the leased facility at the termination of the lease. All expenses related to the debt and operation and maintenance of the leased facilities are the responsibility of the lessee. The Port Authority has no responsibility for the repayment of any of the debt issued for the construction of the leased facilities if the resources provided by the underlying lease are insufficient to pay the obligation. All lease payments and debt retirement payment are administered and flow through accounts of the Port Authority and are recognized in the accompanying statements.

Regional Bond Fund

The Port 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 in the Dayton region. The Bond Fund Program is designed to provide a secondary source of repayment and credit enhancement for debt issued through the Bond Fund but does not represent a liability to the Port Authority and is reported as an agency fund on the Port Authority's financial statements.

The State of Ohio Department of Development (ODOD) awarded the Port Authority a grant of $4,000,000 during 2000 to establish the Bond Fund Program. Amounts held in the Port Authority's Bond Fund Program Reserve are included in restricted assets and as a liability on the accompanying statement of fiduciary assets and liabilities, 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, as well a lien on related assets. In addition, all borrowers are required to provide a letter of credit or cash as additional security for the related bonds. As of December 31, 2012, the Port Authority had used $210,985 for principal and interest payments on the Dayton Legal Blank obligation.

During 2003, the Port 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 Port Authority to use the funds for the Bond Fund Program and for any purpose approved by the Board for economic development purposes.

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 Port Authority was to make a $1,000,000 repayment of principal on December 31, 2022. During May 2004 the terms were renegotiated whereby the Port 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 if the funds are not in reserves. As of December 31, 2012 the Port Authority has accrued interest payments owed to ODOD totaling $25,000.

In addition, the Port Authority has obtained a $5,000,000 letter of credit with a commercial bank for additional reserves. As of December 31, 2012, no amounts of this line of credit have been utilized. The letter of credit is to be accessed only in the event the other reserves of the Regional Bond Fund have been exhausted.

For agency fund projects, the table below reflects bond principal balance, as well as the gross lease receivable (which includes interest expenses and other fees reported on the Statement of Fiduciary Assets and Liabilities of $14,645,915.)

	Bond Balance At 12/31/2012	Lease Receivable at 12/31/2012
Bond Fund Projects		
STEM	$4,725,000	$6,205,216
Materion Brush	1,785,000	2,129,749
Renegade	1,895,000	2,452,411
Clopay Revenue Bonds	1,115,000	1,466,380
Dayton Legal Blank	790,000	0
Subtotal Bond Fund Projects	10,310,000	12,253,756
Other Agency Projects		
Clopay Taxable Bonds	5,695,000	7,381,495
Clopay 166 State Loan	3,332,305	3,836,212
Relizon State Note	3,379,151	3,685,376
2001 Relizon Bond	4,725,000	6,168,766
Burrows State Loan	4,350,000	4,973,452
Connor Group	8,350,000	11,594,001
White Castle	9,850,000	12,576,814
Subtotal Other Trust Projects	39,681,456	50,216,116
Total	$49,991,456	$62,469,872

The Port Authority has $6,554,133 in restricted cash and cash equivalents maintained in the regional bond fund. Of that amount, $2,167,499 is related to the projects listed above which is used to reduce the lease receivable due from the companies.

12. PROJECT RELATED DEBT OBLIGATIONS

For the year ended December 31, 2012, changes in Port Authority's project related debt were as follows:

	Balance at January 1, 2012	Additions	Payments/ Deletions	Balance at December 31, 2012	Due Within One Year
Patterson Parking Garage					
Taxable Development					
Mortgage Revenue Bonds,					
Series 2001 (variable)	$2,110,000	0	($160,000)	$1,950,000	$170,000
Development Revenue Bonds					
Series 2004 5.0-6.125%	1,720,000	0	(90,000)	1,630,000	90,000
Main Street Parking Garage					
City of Dayton	21,856,305	0	(16,757)	21,839,548	18,258
Austin Landing Parking Garage					
SIB Loan	10,000	3,600,000	0	3,610,000	0
Total Debt Obligations	$25,696,305	$3,600,000	($266,757)	$29,029,548	$278,258

13. FINANCING LEASES

For the year ended December 31, 2012, changes in Port Authority's financing leases were as follows:

	Balance at January 1, 2012	Additions	Payments/ Deletions	Balance at December 31, 2012
STEM	$6,727,656	$0	$522,440	$6,205,216
Materion Brush	2,389,058	0	259,309	2,129,749
Maverick	2,713,885	0	261,474	2,452,411
Clopay Revenue Bonds	1,629,818	0	163,438	1,466,380
Clopay Taxable Bonds	8,212,645	0	831,150	7,381,495
Clopay 166 State Loan	4,274,887	0	438,675	3,836,212
Relizon State Note	4,086,274	0	400,898	3,685,376
2001 Relizon Bond	6,959,883	0	791,117	6,168,766
Burrows State Loan	5,888,446	0	914,994	4,973,452
Care Source 2007A	38,820,000	0	38,820,000	0
Care Source 2007B	14,275,000	0	14,275,000	0
Care Source Taxable State Loan	6,766,667	0	6,766,667	0
Connor Group	0	11,725,818	131,817	11,594,001
White Castle	0	12,601,051	24,237	12,576,814
	$102,744,219	$24,326,869	$64,601,216	$62,469,872

14. TRANSFERS

Following is a summary of transfers in and out for all funds for 2012:

Fund	Enterprise	Agency
Transfer-In from Agency Fund for Debt Service Payment	$187,588	$26
Transfer-Out to Agency Fund for transfer of interest	(26)	(187,588)
Total All Funds	$187,562	($187,562)

15. RELATED PARTY DISCLOSURE

City of Dayton

The Port Authority has board members selected by the City of Dayton who have authority to authorize various bond issuances of the Port Authority. In prior years, the Port Authority has approved bond issuances in relation to the City of Dayton for the Patterson and Main Street parking garages. The City of Dayton has issued bond debt through their investment portfolio and required payment from the Port Authority. The Port Authority makes monthly payments to the City of Dayton of the net revenues for the Main Street garage.

Montgomery County

The Port Authority has board members selected by Montgomery County who have authority to authorize various financial transaction involving Montgomery County and the Port Authority. During the current year, the Port Authority issued bonds in relation to the Austin Landing Parking garage and Montgomery County has guaranteed the debt payments by providing an intergovernmental receivable to the Port Authority.

16. NONCOMPLIANCE

The Port Authority did not certify expenditures in accordance with requirements of Ohio Rev. Code Section 5705.41(D)

Ohio Rev. Code Section 135.14 (B) and Section V of the Investment and Depository Policy for the Port Authority does not allow the Port Authority to invest in guaranteed investment contract (GIC).

17. SUBSEQUENT EVENTS

Dayton Legal Blank defaulted on its outstanding debt, which was paid off during January 2013 by reserves in the bond fund. The Port Authority received $500,000 from Montgomery County and issued a line of credit to National Composite Center for operating purposes. The Port Authority applied for and received authorization for a $11.7 million State Infrastructure Bank Loan, with Montgomery County guaranteeing the payments. The Port Authority issued the following bonds:

- $1.42 million Revenue Bonds for the Fieldstone Project
- $65 million Capital Lease Revenue Bonds to Penn National Gaming
- $11 million Capital Lease Revenue Bonds to Malt Products

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Dayton-Montgomery County Port Authority
Montgomery County
8 North Main Street
Dayton, OH 45402.-2400

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and the aggregate remaining fund information of Dayton-Montgomery County Port Authority, Montgomery County (the Port Authority) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 2, 2014, wherein we noted that the Port Authority adopted provisions of Government Accounting Standards Board Statement No. 63 and 65 and the January 1, 2012 net position was restated.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Port Authority's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Port Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-002 and 2012-003.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Port Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Port Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State

Columbus, Ohio

May 2, 2014

SCHEDULE OF FINDINGS
DECEMBER 31, 2012

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2012-001

MATERIAL WEAKNESS

The Port Authority prepared its annual financial statements in accordance with generally accepted accounting principles (GAAP). In the past, the Port Authority reported all of its activity in a single enterprise fund. The first draft of financial statements reported $59,610,715 in assets, $44,576,514 in liabilities, a net position of $15,034,201, operating revenues of $10,113,232 and operating expenses of $2,227,683. Inconsistencies were noted regarding how the Port Authority had been reporting certain debt issuances and related receivables, such as debt issuances that were excluded from the financial statements and reported as conduit debt, while other issuances were totally excluded from the financial statements even though similar debt issuances were reported as liabilities on the Port Authority's financial statements. The Port Authority presented a second set of financial statements on July 23, 2013. The revised financial statements split the Port Authority's activities into proprietary and fiduciary (agency) funds. The Port Authority's bond fund was determined to be fiduciary as the balance consisted of reserves from various debt issuances and grants and loans from the Ohio Department of Development. These balances were used as leverage for issuing new debt and were secured against this fund only. The second draft counted certain assets and liabilities in the agency fund twice. On September 3, 2013, the Port Authority revised the financial statements. The following errors noted in the third draft of financial statements were determined to be material and required audit adjustments:

- The Port Authority operated two parking garages in the City of Dayton, the Main Street Garage and the Patterson Street Garage. The Port Authority reported these garages and related liabilities in the agency fund instead of an enterprise fund. This resulted in following misstatements:
  - The Port Authority did not report $5,943,337 in land, $27,481,337 in building and improvements, $4,008,812 in accumulated depreciation and $687,032 in depreciation expense related to the two parking garages in the enterprise fund statements.
  - The enterprise fund statement of net position did not report three debt issuances totaling $25,419,548.
  - $725,123 in cash and investments related to the garage accounts was not reported in the enterprise fund statement of net position; $501,741 of this amount was reported in the agency fund while the remaining cash balance was not reported at all.
  - $1,152,000 in parking garage receipts were not reported on the enterprise fund statements.
  - $12,466 in rental receipts were not reported in the enterprise fund statements.
  - $890,514 in payments to the City of Dayton which included $16,757 in principal payment and $873,757 in interest and fiscal charges related to the Main Street Parking Garage bonds were not reported in the enterprise fund.
  - $90,000 in principal payments and $97,588 in interest and fiscal charges related to the parking garage 2004A series bonds were not reported on the enterprise fund statements.
  - Interfund transfers in the amount of $187,588 from the agency fund to the enterprise fund for the above noted principal and interest payment of 2004A series bonds were not reported on the enterprise fund statements.
  - The Patterson road parking garage was part of a tax increment financing (TIF) district. The Port Authority was delinquent on TIF payments related to the parking garage, so the City of Dayton utilized payments from other entities in the TIF district to make payments on 2001 taxable project development mortgage revenue bonds. The total principal and interest payments made during 2012 amounted to $160,000 and $58,447 respectively. The Port Authority did not report payment in lieu of taxes revenue, principal retirement and interest and fiscal charges for the on-behalf payments.

FINDING NUMBER 2012-001
(Continued)

- o There were insignificant amounts of interest income and transfers out to the agency fund that were not reported on the enterprise fund statements. Although insignificant, these amounts were adjusted to balance the cash activity.

- The Port Authority financed the construction of a parking garage at intersection of Austin Road and I-75. The Port Authority obtained $3,600,000 in loans from the State Infrastructure Bank (SIB). The loan proceeds were transferred to the developer of Austin Landing for construction of a parking garage. At the same time, the Port Authority signed an intergovernmental agreement with the Montgomery County Commissioners requiring the County to provide the Port Authority with all necessary funds required to repay the $3,600,000 SIB loan in a timely fashion together with any interest accrued thereon. At December 31, 2012, the Port Authority owed $3,610,000 on the SIB loan which included unpaid interest and fiscal charges of $10,000 that were added to the principal amount. The Port Authority did not report the SIB loan payable, payments made to the developer and receivable from Montgomery County. Which resulted in following misstatements:

  - o Net position at the beginning of the year was overstated by $10,000 related to interest and fiscal charges from prior year.
  - o Grant expenditures were understated by $3,600,000.
  - o SIB loan payable was understated by $3,610,000.
  - o Due from other government and related unearned revenue was understated by $4,210,013. This amount includes the principal balance of $3,610,000 and interest payments of $600,013.

Due to the above noted errors to the enterprise fund financial statements, the net position was understated by $5,190,741 at the beginning of the year and net position at the end of the year was understated by $1,111,437.

The following errors were noted in the agency fund statement of fiduciary assets and liability:

- Leases receivable related to various bond fund debt issues were understated by $33,232,740.
- The Port Authority reported $843,943 in undistributed monies. However, the bond fund cash was either associated with one of the bond fund debt issues or part of restricted grants that was due to the Port Authority.
- Restricted grant due to Port Authority was overstated by $1,411,381 as the Port Authority reported $1,000,000 in ODOD loan payable as grant due to Port Authority. The remaining balance was related to unfunded obligations that would be paid out of bond fund accounts not associated with one particular debt.
- Revenue bonds payable were understated by $26,431,271.
- Interest and fees payable were understated by $8,655,634.
- The Port Authority reported $4,218,337 in land and $21,759,700 in buildings related to the parking garages. These garages should have been reported in the enterprise fund.

The following errors noted in the enterprise fund statements did not require an audit adjustment:

- The Port Authority's 2011 financial statements reported $162,441 in accounts payable related to the delinquent payment in lieu of taxes due to Montgomery County for the Patterson Street Garage. The actual payable amount at December 31, 2011 was $511,088. In an effort to correctly present the beginning accounts payable balance, the Port Authority booked a prior period adjustment in the amount of $511,088 to report the payments in lieu of taxes due. Since $162,441 of this amount was already presented in the financial statements, the total amount of adjustment made by the Port Authority should have been the difference between the amount due at December 31, 2011 of $511,088 and amount previously reported. Due to the Port Authority booking a portion of the payable twice, the 2012 payment in lieu of real estate taxes expenditure and net position at the beginning of the year were both understated by $162,441.

FINDING NUMBER 2012-001
(Continued)

- The Port Authority did not properly report all receipts and expenses. Other revenues were overstated by $61,136 and operating expenses were overstated by $62,288.
- The Port Authority did not properly report the following for the Main Street Garage:

    - o Daily cash collected by PMI at the Main Street Garage was not deposited in the Port Authority's bank account. Instead the receipts were netted against the expenditures and expenditures in excess of cash collections were billed to the Port Authority for payment. The Port Authority did not book a memo revenue and memo expense in the amount of $45,932 to account for these receipts and expenses.
    - o The Port Authority paid PMI $43,728 for December 2011 Main Street garage expenses on January 20, 2012. The expense was related to 2011 and was not properly presented on the Port Authority's statements. This resulted in the beginning balance being overstated by $43,728 and operating expenses being overstated by the same amount.
    - o The Port Authority did not report $20,761 in accounts payable due to PMI for December expenditures.

Procedures should be developed and implemented to verify that the Port Authority's financial statements accurately present its activities. Failure to do so could result in material misstatements in the financial statements going unnoticed.

Official's Response:

The fiscal year 2012 report was initially prepared with the same methodology and presentation format used in previous years' audited financial statements; with prior year audited information adjusted for fiscal year 2012. During the course of the audit, the Port became aware of trust accounts and prior year bond issues that were not reported on the prior year financial statements. Some of these items went back several reporting years. After discussion with the auditors the Port decided to change the way the financial statements were presented for fiscal year 2012. The Port operates as a pass through entity for financing deals. All of the Port's debt obligations are secured through either a lease or underlying guarantee, with no reliance or claim based on the Port's operating revenues, other those generated by leases of the assets being financed. The revised set of financial presentation reported all activity--other than the core activity that is reported through the Port's checking accounts--- in an agency fund, since those pass through activities are basically fiduciary in nature for the Port. After the auditors reviewed the information, it was determined the Port's responsibilities for three parking garage projects were considered enterprise and not agency in nature. This is the reason for multiple financial statement presentations.
The majority of the adjustments listed in the audit finding resulted from the Port's classification of the parking garages as agency fund rather than enterprise fund. The comments below address each bullet point:

- The buildings, accumulated depreciation and depreciation expense were reported in the agency fund. There was no actual adjustment for the amount reported on these line items just moving them from a different statement.
- The debt issuances were reported in the agency fund and the balances were moved to this statement as the same amounts.
- There was a slight variance in the cash balance but the $501,741 is the trust balance for the Patterson debt. The remaining balance is maintained in the Main Street checking account.
- The rental receipts were not reported, given that agency funds do not report revenues and expenses. The amounts were in the original set of financial statements but removed when the classification of the Main Street garage was changed to agency in the second set.
- The payments to the City of Dayton were reported on the first set of financial statements but the allocation between principal and interest was not done. When the Main Street garage was moved the presentation of expenses was eliminated.

- The principal and interest payments on the 2004A bonds were not reported, given that agency funds do not report revenues and expenses. The amounts were in the original set of financial statements but removed when the classification of the Patterson garage was changed to Agency in the second set.
- Inter-fund transfers had to be effected in order to move the three garage projects to the enterprise fund.
- The TIF and related principal and interest payments on the 2001 taxable bonds were not reported, given that agency funds do not report revenues and expenses. The amounts were in the original set of financial statements but removed when the classification of the Patterson garage was changed to agency in the second set.
- The interest and transfers between funds are only necessary because of the classification of the bond fund and movement between agency and enterprise functions.
- Relative to the SIB loan on the Austin Parking Garage, it was not reported on either statement as the Port has no operational interest in the garage and the debt was guaranteed by Montgomery County.

Relating to the agency fund statement of fiduciary assets and liabilities:

- Leases receivable were understated by $33,232,740. In prior year audits, several Port transactions were not reported as they were determined to be conduit debt transactions with no Port obligations. The auditors evaluated the financing documents and determined that a lease was in place. In the past the Port only reported leases for the Relizon and Burrow buildings. However, other projects were considered to be in the same category and thus the lease assets have been appropriately increased.
- The undistributed monies were misclassified and should have been reported as part of the interest and fees payable line item.
- In prior years, the amount reported as restricted grant was determined to be correct. The auditors interrupted the documentation for these items differently and reduced the grant portion.

Revenue bonds, interest and fee were understated. As stated in the lease receivable comment, the prior years' audits did not include certain conduit debt obligations, but the current auditors included these conduit debt obligations. Other items noted in enterprise fund statement did not require adjustment:

- The Port will check the total balances of payables for future years to verify the correct amounts are reported.
- The Port did "net" the cash receipts in 2012 but now reports gross receipts and gross expenses.

The accounts for both items were initially reported in the first set of financial statements but were removed when it was reported in the agency fund.

FINDING NUMBER 2012-002

NONCOMPLIANCE

Ohio Rev. Code Section 5705.28 (B)(2)(a) states that the taxing authority of a taxing unit that does not levy a tax is not required to adopt a tax budget pursuant to division (A) of this section. Instead, on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission.

FINDING NUMBER 2012-002
(Continued)

Further **Ohio Rev. Code Section 5705.28 (B) (2)(b)** states that except for this section and sections 5705.36 , 5705.38 , 5705.40 , 5705.41 , 5705.43 , 5705.44 , and 5705.45 of the Revised Code, a taxing unit that does not levy a tax is not a taxing unit for purposes of Chapter 5705 of the Revised Code. Documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission.

Ohio Rev. Code Section 5705.41(D)(1) states that except as otherwise provided in division (D)(2) of this section and section 5705.44 of the Revised Code, make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing fiscal year, the amount required to meet the obligation in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every such contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon. If no certificate is furnished as required, upon receipt by the taxing authority of the subdivision or taxing unit of a certificate of the fiscal officer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, such taxing authority may authorize the drawing of a warrant in payment of amounts due upon such contract, but such resolution or ordinance shall be passed within thirty days after the taxing authority receives such certificate; provided that, if the amount involved is less than one hundred dollars in the case of counties or three thousand dollars in the case of all other subdivisions or taxing units, the fiscal officer may authorize it to be paid without such affirmation of the taxing authority of the subdivision or taxing unit, if such expenditure is otherwise valid.

The Port Authority approved the 2012 budget on December 19, 2011. Additionally, the Port Authority did not utilize purchase orders, blanket purchase orders, super blanket certificates or then and now certificates in accordance with Ohio Rev. Code Section 5705.41(D).

The Port Authority should establish and implement policies and procedures to verify that purchase orders are utilized properly for all purchases and that operating budgets are approved in a timely manner to verify that the Port Authority has appropriate time to adapt to any anticipated changes in the ensuing fiscal year.

Failure to properly certify the availability of funds could result in misappropriation of monies and negative cash fund balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. The Treasurer should certify that the funds are or will be available prior to the obligation by the Port Authority to improve controls over disbursements and to help reduce the possibility that purchases would exceed budgetary spending limitations. When prior certification is not possible, “then and now” certification should be used. The Port Authority should certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification prior to the Port Authority incurring a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should also post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

Official’s Response:

- The Port approves a budget for the next fiscal year at either the last meeting in the previous year or first month of current year. The prior audits did not include any citations for this so it continued. The Port will work on approving the next year’s budget by July 15th. .

FINDING NUMBER 2012-002
(Continued)

- Given the small size of the Port, one part time Director and contract accountant, and complex nature of operations, it is not possible to have a certificate of available funds in place for every transaction. The Port, on a monthly basis, compares operating expenses (non trust fund related) to the Board approved budget to ensure there is authorization for the expense. The use of purchase orders, super blankets or then/now certificates is not feasible given the nature of the Port.

FINDING NUMBER 2012-003

NONCOMPLIANCE

Ohio Rev Code Section 135.14 (B) states that the treasurer or governing board may invest or deposit any part or all of the interim moneys. The following classifications of obligations shall be eligible for such investment or deposit:

(1) United States treasury bills, notes, bonds, 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.

Nothing in the classification of eligible obligations set forth in division (B)

(1) Of this section or in the classifications of eligible obligations set forth in divisions (B)(2) to (7) of this section shall be construed to authorize any investment in stripped principal or interest obligations of such eligible obligations.
(2) 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.
(3) Interim deposits in the eligible institutions applying for interim moneys as provided in section 135.08 of the Revised Code. The award of interim deposits shall be made in accordance with section 135.09 of the Revised Code and the treasurer or the governing board shall determine the periods for which such interim deposits are to be made and shall award such interim deposits for such periods, provided that any eligible institution receiving an interim deposit award may, upon notification that the award has been made, decline to accept the interim deposit in which event the award shall be made as though the institution had not applied for such interim deposit.
(4) Bonds and other obligations of this state;
(5) No-load money market mutual funds consisting exclusively of obligations described in division (B)(1) or (2) 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 mentioned in section 135.03 of the Revised Code;
(6) The Ohio subdivision's fund as provided in section 135.45 of the Revised Code;
(7) Up to twenty-five per cent of interim moneys available for investment in either of the following:
   (a) Commercial paper notes issued by an entity that is defined in division (D) of section 1705.01 of the Revised Code and that has assets exceeding five hundred million dollars, to which notes all of the following apply:
      (i) The notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services.
      (ii) The aggregate value of the notes does not exceed ten per cent of the aggregate value of the outstanding commercial paper of the issuing corporation.
      (iii) The notes mature not later than one hundred eighty days after purchase.
   (b) Bankers acceptances of banks that are insured by the federal deposit insurance corporation and to which both of the following apply:
      (i) The obligations are eligible for purchase by the federal reserve system.
      (ii) The obligations mature not later than one hundred eighty days after purchase.

FINDING NUMBER 2012-003
(Continued)

Additionally, **Section V** of the Investment and Depository Policy for the Port Authority mirrors the requirements of Ohio Rev. Code Section 135.14(B) for permissible investments.

During 2012, the Port Authority invested $4,000,000 in Guaranteed Investment Contract (GIC) through a private company. The GICs were not backed by the full faith and credit of the United States or otherwise listed as an allowable investment.

The Port Authority should establish and implement policies and procedure to verify that the Port Authority only invests in allowable investments to reduce the risk of loss of public funds through its investments.

Official's Response:

- On July 14, 2004 (not 2012, as noted in the finding), the Port entered into a Guaranteed Investment Contract (GIC) for $4,000,000. The income from the GIC is used to make the debt service payments on the $2,235,000 Development Revenue Bond issued by the Dayton Regional Bond Fund on the same date. The purpose of that issuance was to fund part of the costs of the Patterson Garage. The Trustee for the Dayton Regional Bond Fund (Bank of New York Mellon) monitors compliance with all GIC provisions, including maintenance of credit rating, by the Guarantor. The terms of the GIC are compliant with the provisions of the Trust Indenture for the Dayton Regional Bond Fund.

- The Investment and Depository Policy for the Port Authority will be modified so that the GIC is an eligible investment.

DAYTON-MONTGOMERY COUNTY PORT AUTHORITY
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2011-01	Financial statement misstatements	No	Repeated as finding 2012-001

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
MAY 29, 2014

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov