TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1999

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Tri-Cities North Regional Wastewater Authority
Montgomery County
3777 Old Needmore Road
Dayton, Ohio 45424

To the Board of Trustees:

We have audited the accompanying general-purpose financial statements of the Tri-Cities North Regional Wastewater Authority, Montgomery County, (the Authority), as of and for the year ended December 31, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Authority 's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Tri-Cities North Regional Wastewater Authority, as of December 31, 1999, and the results of its operations and the cash flows of its proprietary fund for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2000, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Jim Petro
Auditor of State

May 5, 2000

COMBINED BALANCE SHEET
DECEMBER 31, 1999

Assets	
Current Assets	
Investments	$5,379,927
Accounts Receivable	364,882
Total Current Assets	5,744,809
Fixed Assets, Net of Accumulated Depreciation	19,322,660
Total Assets	$25,067,469
Liabilities and Fund Equity	
Current Liabilities	
Accounts Payable	$139,115
Accrued Wages	1,799
Intergovernmental Payable	2,516
Accrued Interest Payable	269,513
Compensated Absences Payable	10,814
Current Portion of OWDA Loans Payable	730,450
Total Current Liabilities	1,154,207
Long-term Liabilities	
OWDA Loans Payable	4,683,226
Total Long-term Liabilities	4,683,226
Total Liabilities	5,837,433
Fund Equity	
Contributed Capital	17,470,677
Retained Earnings:	
Unreserved	1,759,359
Total Fund Equity	19,230,036
Total Liabilities and Fund Equity	$25,067,469

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1999

Operating Revenues	
Charges for Services	$3,193,204
Rentals	53,525
Other Operating Revenues	62,902
Total Operating Revenues	$3,309,631
Operating Expenses	
Personal Services	70,631
Contractual Services	1,429,394
Materials and Supplies	427,273
Depreciation	604,032
Total Operating Expenses	2,531,330
Operating Income	778,301
Nonoperating Revenues (Expenses)	
Interest Income	170,291
Gain on Sale of Fixed Assets	1,843
Interest Expense	(570,210)
Total Nonoperating Revenues (Expenses)	(398,076)
Net Income	380,225
Retained Earnings Beginning of Year - Restated (Note 3)	1,379,134
Retained Earnings End of Year	1,759,359
Contributed Capital at Beginning and End of Year	17,470,677
Fund Equity at End of Year	$19,230,036

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 1999

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for Services	$3,237,979	$3,239,494	$1,515
Interest	234,728	262,419	27,691
Rentals	53,525	53,525	0
Proceeds from Sale of Fixed Assets	8,000	8,000	0
Other	65,226	65,226	0
Total Revenues	3,599,458	3,628,664	29,206
Expenses			
Personal Services	69,800	69,720	80
Contractual Services	1,739,764	1,662,336	77,428
Materials and Supplies	75,072	61,860	13,212
Capital Outlay	1,291,236	886,362	404,874
Debt Service:			
Principal Retirement	665,069	665,069	0
Interest and Fiscal Charges	602,844	602,844	0
Total Expenses	4,443,785	3,948,191	495,594
Excess of Revenues Under Expenses	(844,327)	(319,527)	524,800
Fund Equity Beginning of Year	4,610,310	4,610,310	0
Prior Year Encumbrances Appropriated	640,983	640,983	0
Fund Equity End of Year	$4,406,966	$4,931,766	$524,800

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1999

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	$3,239,494
Other Operating Revenues	118,751
Cash Payments for Employee Services and Benefits	(69,720)
Cash Payments to Suppliers for Goods and Services	(1,907,527)
Net Cash Provided by Operating Activities	1,380,998
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Sale of Fixed Assets	8,000
Principal Paid On OWDA Loan Payable	(665,069)
Interest Paid on OWDA Loan Payable	(602,844)
Acquisition of Capital Assets	(157,732)
Net Cash Used for Capital and Related Financing Activities	(1,417,645)
Cash Flows from Investing Activities:	
Interest	267,430
Purchase of Investments	(906,103)
Sale of Investments	625,777
Net Cash Used for Investing Activities	(12,896)
Net Decrease in Cash and Cash Equivalents	(49,543)
Cash and Cash Equivalents Beginning of Year	49,543
Cash and Cash Equivalents End of Year	$0
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$778,301
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	604,032
Changes in Assets and Liabliites	
Decrease in Accounts Receivable	91,523
Decrease in Accounts Payable	(93,769)
Decrease in Accrued Wages	(422)
Decrease in Intergovernmental Payable	(1,495)
Increase in Compensated Absences	2,828
Net Cash Provided by Operating Activities	$1,380,998

Non-cash Investing Activities:

There was a $97,138 decrease in the fair market value of investments from 1998 to 1999, which was posted as a decrease to investments and interest income.

See accompanying notes to the general purpose financial statements

1. REPORTING ENTITY

The Tri-Cities North Regional Wastewater Authority ("Tri-Cities") is a joint venture among the cities of Vandalia, Tipp City and Huber Heights. Tri-Cities is a stand-alone government which is governed by a management board of trustees consisting of the city managers of the three member cities. The board has complete authority over all aspects of the operation. Tri-Cities supplies all participating residents of the member cities with sewage treatment services. Each city owns the sewage lines located in its city and bills its residents for the treatment service provided by Tri-Cities.

Tri-Cities' board has retained an outside contractor to manage daily operations. These amounts are recorded as contractual services expense. Tri-Cities' board has also hired a General Manager to oversee the management of daily operations. These amounts are recorded as personal services expense.

Tri-Cities charges each member city for sewage treatment services provided to the cities' residents in accordance with the joint venture agreement dated June 11, 1996. Such charges are allocated based upon each city's annual usage and is adjusted each year accordingly. The continued existence of Tri-Cities is dependent upon the participation of each member city, and each participating city has an equity interest in Tri-Cities. The following is a schedule of the participating cities' equity interest at December 31, 1999, and 1998.

	1999	1998
Vandalia	27.95%	28.64%
Tipp City	17.72	18.89
Huber Heights	54.33	52.47
Total	100.00%	100.00%

The reporting entity is comprised of the stand-alone government, component units and other organizations that are included to ensure that the financial statements of Tri-Cities are not misleading. The stand-alone government consists of all departments, boards and agencies that are not legally separate from Tri-Cities.

Component units are legally separate organizations for which Tri-Cities is financially accountable. Tri-Cities is financially accountable for an organization if it appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Based upon the application of these criteria, Tri-Cities has no component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Tri-Cities North Regional Wastewater Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Tri-Cities also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of Tri-Cities' accounting policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Measurement Focus and Basis of Accounting

All transactions of the Tri-Cities North Regional Wastewater Authority are accounted for in a single enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where (a) the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

An enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

Tri-Cities follows the accrual basis of accounting whereby revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year end.

B. Budgetary Accounting

Although not required under the Ohio Revised Code, an annual operating budget is adopted for management purposes. As part of budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported in the notes to the financial statements. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated. Budgetary control is exercised at the object level. Budget information is reported to the management board of trustees. Budgetary modifications may only be made by resolution of the management board of trustees.

C. Cash and Cash Equivalents

During 1999, investments included a repurchase agreement, a money market mutual fund, commercial paper, Federal Home Loan Bank (FHLB) notes, and mortgage backed securities and participation certificates issued by Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with an initial maturity of three months or less are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fixed Assets and Depreciation

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation of buildings, infrastructure and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings and Improvements	45 years
Infrastructure	65 years
Machinery and Equipment	15 years

E. Compensated Absences

Tri-Cities follows the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to service already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability will includes employees currently eligible to receive termination benefits and those Tri-Cities has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and the employee's wage rate at year end, taking into consideration any limits specified in Tri-Cities termination policy.

Tri-Cities records a liability for all accumulated unused vacation time when earned. Tri-Cities records a liability for accumulated unused sick leave after twenty years of accumulative service. These amounts are recorded in the account "compensated absences payable" as a fund liability.

F. Contributed Capital

Contributed capital represents equity and assets that were deeded to Tri-Cities by the Miami Conservancy District. There was no change in contributed capital during 1999.

3. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were necessary for accounts payable and fixed assets. Accounts payable were overstated by $49,140 as of December 31, 1998. Fixed assets were also overstated as of December 31, 1998 by $125,314. As a result, retained earnings as of December 31, 1998 was decreased by $76,174, from $1,455,308 to $1,379,134.

4. DEPOSITS AND INVESTMENTS

The investment and deposit of Tri-Cities' monies are governed by the Investment and Deposit Policy of Tri-Cities North Regional Wastewater Authority as formally adopted by the Board of Trustees. In accordance with these provisions, investments purchased for the portfolio may be safekept only by financial institutions that have been authorized by Tri-Cities' Board of Trustees through formal resolution and recommendations received from the Finance Committee, which considers such criteria as the financial institution's insured status, size, financial condition, location and fee structure.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities, the face value of which is at least 110% of the total value of public monies on deposit at the institution.

Deposits - At year-end, the carrying amount of Tri-Cities' deposits was zero and the bank balance was $1,121, which was covered by federal deposit insurance.

Investments - Investments are made through an individual investment account maintained by the fiscal agent. Whenever there are monies in Tri-Cities' account which will not be required to be used for a period of thirty days or more, such funds are invested subject to the limitations contained within the investment policy of Tri-Cities, and subject to all applicable laws and regulations.

The investment objectives controlling the management of Tri-Cities' investment portfolio are, in order of importance: (1) Safety of principal. Recognizing that all investments contain one or more elements of risk, the portfolio shall be prudently managed with specific consideration given to credit risk, market risk, and prepayment risk; (2) Liquidity to meet current and contingent requirements; (3) Diversity of investments. Tri-Cities shall diversify its investments to avoid incurring unreasonable risks associated with the practice of concentrating on investments in specific security types and individual institutions; (4) Public Confidence. Tri-Cities shall avoid any transaction which might impair its public confidence.

According to the Tri-Cities' investment policy, the maximum maturity of any investment is limited to a final stated maturity of five years or an average life of five years, where the average life is estimated by nationally recognized firms independent of the dealer selling the security.

The provisions of Tri-Cities' investment policy authorizes the following investments:

1. Obligations of the United States including U.S. treasury securities and government agency securities guaranteed by the United States.

2. United States government agency securities and the securities issued by instrumentalities of the U.S. including, but not limited to, obligations of the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Farm Credit Bank, the Federal Home Loan Bank, the Government National Mortgage Association (GNMA), and the Small Business Administration (SBA).

3. State Treasury Asset Reserve of Ohio (STAR Ohio).

4. DEPOSITS AND INVESTMENTS (Continued)

4. Money market mutual funds registered by the federal government under the amended Investment Company Act of 1940 provided that the portfolio is limited to bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States or agreements to repurchase these same types of obligations.

5. Deposits of any Ohio financial institution subject to collateralization of public funds defined by the Ohio Revised Code.

6. Shares, savings accounts, certificates of deposit, or other deposit accounts legally issuable by State or Federal Savings and Loan Associations which are insured by the FDIC.

7. Prime Commercial Paper issued with a credit rating of P-1 by Standard & Poors Corporation or A-1 by Moody's rating service provided no more than 10 percent of the porfolio, at the time of investment, is invested in commercial paper.

The portfolio shall be diversified so as to avoid concentrations of credit risk from any rated issuer: (1) At the time of purchase, aggregate collateralized investments in the obligations of any financial institution are limited to no more than 20 percent of the portfolio, where eligible collateral is defined by the Ohio Revised Code; (2) At the time of purchase, aggregate investments in the obligations of any U.S. corporation and non-collateralized investments in the obligations of any financial institution are limited to no more than 10 percent of the portfolio. Investments in eligible short term investments which can be readily converted to cash within 48 hours are limited to no more than 30 percent of the portfolio.

During 1999, Tri-Cities continued to diversify the investment portfolio to gain a higher rate of return while still maintaining liquidity and minimizing risk. Investments include a repurchase agreement, U.S. Treasury Fund money market, GE Interest Plus commercial paper, Federal Home Loan Bank (FHLB) notes, and mortgage backed securities and participation certificates issued by FNMA and FHLMC. The FHLB note has an interest rate that varies directly with the Constant Maturity Treasury (CMT), an index of Treasury securities published by the Federal Reserve Board. The note is issued with a coupon floor and a coupon cap which establish a range of possible interest rates for the security regardless of the change in market rates. The security was selected for purchase because the minimum interest rate, when coupled with the discount at the time of purchase, yields a rate of return that exceeds what was available from more conventional securities and that yield will increase if market interest rates increase.

A participation certificate (PC) is a mortgage pass-through security. It represents an interest in a pool of mortgage loans. Holders of the PC receive principal and interest payments as the principal and interest payments on the underlying mortgages are made. For the PCs purchased by the City, FNMA and FHLMC guarantee the timely payment of the mortgage principal and interest payments. The average life of a PC is a measure of when mortgage principal payments are actually received and will vary depending on how quickly the mortgages are paid. If the mortgages in the pool are prepaid because the owners sell their homes, or if interest rates decline and mortgages are prepaid through refinancing, the average life of the PC will shorten. If interest rates increase, the average life of the PC will increase. PCs are fixed income securities; that means that their prices vary as market rates change. PCs are therefore purchased on the open market at a premium or discount. Changes in average life caused by prepayments will affect yield depending on whether the security was purchased at a premium or discount.

4. DEPOSITS AND INVESTMENTS (Continued)

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that Tri-Cities' investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by Tri-Cities or its agent in Tri-Cities' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in Tri-Cities' name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in Tri-Cities' name.

	Category 2	Carrying Value	Fair Value
Repurchase Agreement	$1,076,374	$1,076,374	$1,076,374
U.S. Treasury Fund Money Market	30,379	30,379	30,379
GE Interest Plus Commercial Paper	513,008	513,008	513,008
Federal Home Loan Bank Notes (FHLB)	1,509,790	1,509,790	1,509,790
Federal National Mortgage Association (FNMA) Medium Term Notes	2,003,266	2,003,266	2,003,266
Federal Home Loan Mortgage Corporation (FHLMC) Medium Term Notes	247,110	247,110	247,110
Total	$5,379,927	$5,379,927	$5,379,927

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications per GASB Statement No. 3 is not required.

5. RECEIVABLES

Receivables at December 31, 1999 consist of accounts receivable. Accounts receivable represent monies due from the cities for their portion of sewage treatment services. No allowance for doubtful accounts has been recorded as all amounts are considered collectible.

6. FIXED ASSETS

A summary of Tri-Cities' fixed assets at December 31, 1999, follows:

	1999
Land	$2,141,199
Infrastructure	2,531,510
Buildings and Improvements	9,421,024
Machinery and Equipment	7,290,871
Total	21,384,604
LESS: Accumulated Depreciation	(2,061,944)
Total	$19,322,660

7. OWDA Loan Payable

Tri-Cities had two OWDA Loans outstanding at December 31, 1999 in the amount of $5,299,935 and $113,741 for a total of $5,413,676. The loans bear an interest rate of 9.98 and 7.50 percent per annum and are payable in semi-annual installments through 2005 and 2002. Both loans were originally issued by the Miami Conservancy District during 1993 in the amount of $8,100,589 and $330,088 and were assumed by Tri-Cities when it was deeded the treatment plant from the Miami Conservancy District in 1996. Current operations are expected to provide sufficient cash flows to fund debt service requirements.

The annual debt service requirements for payment of principal and interest at December 31, 1999 are as follows:

	Principal	Interest
2000	$730,450	$537,464
2001	802,276	465,636
2002	855,317	386,723
2003	914,208	301,958
2004	1,005,446	210,720
2005	1,105,979	110,187
Totals	$5,413,676	$2,012,688

8. RELATED PARTY TRANSACTION

Tri-Cities was party to several transactions during 1999 involving the three member cities, which are summarized as follows:

A. Accounts Receivable

Accounts Receivable for 1999 consists primarily of amounts due from the member cities for sewage treatment services provided to the cities' residents as follows:

	1999
Vandalia	$98,971
Tipp City	59,406
Huber Heights	198,130
Total	$356,507

B. Charges for Services

Charges for services revenue for 1999 consists primarily of amounts charged to the member cities for sewage treatment services provided to the cities' residents as follows:

	1999
Vandalia	$911,322
Tipp City	552,317
Huber Heights	1,656,578
Total	$3,120,217

9. RISK MANAGEMENT

Tri-Cities is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Tri-Cities carries liability insurance with Baldwin & Whitney Insurance. Tri-Cities pays an annual premium to Baldwin & Whitney Insurance for this coverage.

The following is a list of insurance coverage and deductibles for 1999:

Coverage	Limit	Deductible
Property	$12,474,520	$1,000
General Liability:		
Per Occasion	4,000,000	None
Aggregate	6,000,000	None
Public Officials:		
Per Occasion	4,000,000	None
Aggregate	5,000,000	None
Computer Equipment	25,000	250
Contractors Equipment	845,525	
Crime:		
Employee Dishonesty	50,000	1,000
Money and Securities	1,000	1,000
Boiler and Machinery	500,000	1,000
Automobile:		
Liability	4,000,000	None
Comprehensive	Actual Cash Value	100
Collision	Actual Cash Value	250
Uninsured Motorist	500,000	None

There has been no material change in this coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

Tri-Cities pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

10. PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT PENSION PLAN

Tri-Cities contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations, and Tri-Cities is required to contribute 13.55 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. Tri-Cities required contributions to PERS for the years ended December 31, 1999, 1998, and 1997, were $3,504, $3,178, and $1,780, respectively. The full amount has been contributed for 1998 and 1997; 60.11 percent has been contributed for 1999 with the remainder being reported as a fund liability.

11. PUBLIC EMPLOYEES RETIREMENT SYSTEM POSTEMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 1999 employer contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care for 1999.

For 1999, benefits are funded on a pay-as-you-go basis. OPEB is financed through employer contributions and investment earnings. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1999, OPEB expenditures made by PERS were $523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were $9,870,285,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was $118,062. Tri-Cities' actual contributions for 1999 which were used to fund OPEB were $2,441.

12. OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plan

Tri-Cities' employee participates in the Ohio Public Employees Deferred Compensation Plan. This plan is created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

1. Insurance Benefits

Employees of Tri-Cities' have the option to receive insurance coverage and benefits or to receive a $1,000 payment in lieu of receiving the benefits. The latter was chosen for 1999.

2. Compensated Absences

Accumulated Unpaid Vacation

Tri-Cities' employee earns vacation leave based on length of service and may accrue a maximum of 45 days. In the event of a termination of employment, death or retirement, the employee (or the estate) would be paid for unused vacation leave. The total obligation for vacation accrual for Tri-Cities amounted to $10,814 at December 31, 1999.

Accumulated Unpaid Sick Leave

Tri-Cities' employee earns sick leave at the rate of 4.616 hours per eighty hours of service. A maximum of 1,250 hours may be carried from one year to the next. Any hours over 1,250 accrued and not taken will be paid on a one for three basis at the end of the year. In the case of death or retirement, the employee (or the estate) would be paid for one half of the accumulated leave with 625 hours being the maximum amount paid. There was no sick leave accrual as of December 31, 1999.

13. BUDGETARY BASIS OF ACCOUNTING

While Tri-Cities is reporting financial position, results of operations, and changes in retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenses (budget basis) rather than as note disclosure (GAAP basis).

4. The acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

5. Principal payments on the OWDA loan are reported on the operating statement (budget basis) rather than as a balance sheet transaction (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

**Net Income/Excess of Revenues
Under Expenses**

GAAP Basis	$380,225
Net Adjustment for Revenue Accruals	51,604
Net Adjustment for Expense Accruals	(82,583)
Decrease in Fair Value of Investments	97,138
Depreciation	604,032
Capital Outlay	(157,732)
Principal Retirement	(665,069)
Gain on Sale of Fixed Assets	(1,843)
Encumbrances	(545,299)
Budget Basis	($319,527)

14. SUBSEQUENT EVENTS

On March 21, 2000, Tri-Cities' received a twenty year loan from the Water Pollution Control Loan Fund in the amount of $1,871,341, with an interest rate of 4.66 percent. Annual payments for the loan are $144,858, starting July, 1 2000, and ending July 1, 2021. Proceeds from the loan will be used to construct improvements to the nitrification process to ensure long term reliable performance and compliance with effluent ammonia discharge limitations.

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REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Tri-Cities North Regional Wastewater Authority
3777 Old Needmore Road
Dayton, Ohio 45424

We have audited the financial statements of the Tri-Cities North Regional Wastewater Authority, Montgomery County, (the Authority), as of and for the year ended December 31, 1999, and have issued our report thereon dated May 5, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Jim Petro
Auditor of State

May 5, 2000

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TRI-CITIES NORTH REGIONAL WASTEWATER 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
JUNE15, 2000