TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY

Independent Auditors' Report on Compliance and Internal Controls

December 31, 2003



Board of Trustees Tri-Cities North Regional Wastewater Authority

We have reviewed the Independent Auditor's Report of the Tri-Cities North Regional Wastewater Authority, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomeny

BETTY MONTGOMERY Auditor of State

July 22, 2004





Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting

Based on an Audit of Financial Statements Performed in Accordance with

Government Auditing Standards

To the Board of Trustees and General Manager 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, as of and for the year ended December 31, 2003, and have issued our report thereon dated May 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Tri-Cities North Regional Wastewater 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

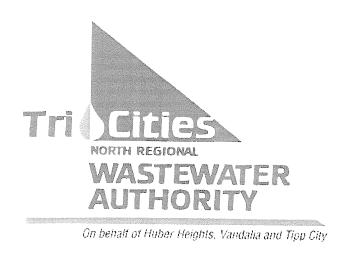
In planning and performing our audit, we considered Tri-Cities North Regional Wastewater Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal 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 financials 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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated May 31, 2004.

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

Springfield, Ohio

Check, Scharfer, Hackett & O.

May 31, 2004





Tri-Cities North Regional Wastewater Authority Montgomery County, Ohio

Comprehensive Annual Financial Report For the Year Ended December 31, 2003

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2003

Submitted by: David J. Heckler General Manager



TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2003

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3777 Old Needmore Road Dayton, OH 45424 (937) 236-6558 Fax (937) 236-6581

May 31, 2004

Citizens, Taxpayers and Consumers of the Cities of Huber Heights, Vandalia and Tipp City Board of Trustees of Tri-Cities North Regional Wastewater Authority

Mayors and Members of Council of the Cities of Huber Heights, Vandalia and Tipp City

Tri-Cities North Regional Wastewater Authority Finance Committee Members

Tri-Cities North Regional Wastewater Authority Technical Committee Members

I am pleased to present the fourth Comprehensive Annual Financial Report (CAFR) for the Tri-Cities North Regional Wastewater Authority (Tri-Cities). This report for the year ended December 31, 2003, contains the financial statements and other financial and statistical data that provide complete and full disclosure of all material financial aspects of Tri-Cities. The responsibility for the accuracy and completeness of all data presented, and the fairness of the presentation, rests with Tri-Cities and, specifically with my office.

This CAFR is divided into three sections as follows:

- 1. The Introductory Section contains a table of contents, letter of transmittal, list of principal officials, an organizational chart of Tri-Cities, and the certificate of achievement.
- 2. The Financial Section begins with the Independent Auditors' Report and includes Management's Discussion and Analysis, the Basic Financial Statements and Notes, which provide an overview of Tri-Cities' financial position and operating results, and the Schedule of Revenues, Expenses and Changes in Fund Equity Budget (Non–GAAP) Basis and Actual, which provides detailed budgetary information relative to the Basic Financial Statements.
- 3. The Statistical Section presents social and economic data and financial trend information, and demonstrates the fiscal capacity of Tri-Cities.

TRI-CITIES OVERVIEW

Located on a hillside, near the intersection of State Route 202 and Needmore Road, is the wastewater treatment facility that serves the Cities of Huber Heights, Vandalia and Tipp City. After two years of serious negotiations, these cities assumed full ownership of this facility from the Miami Conservancy District in an unprecedented acquisition that closed on June 11, 1996.

Under the provisions of Ohio Revised Code Section 715.02, the Cities of Huber Heights, Vandalia and Tipp City signed a joint venture agreement to create Tri-Cities North Regional Wastewater Authority. Through Tri-Cities, the Cities have full responsibility for the North Regional Wastewater Treatment Plant and associated facilities. Tri-Cities' mission is to provide cost effective, environmentally responsible, and reliable wastewater treatment services for the cities of Huber Heights, Vandalia, and Tipp City. This mission is accomplished through the efforts of the professional staff that manage, operate and maintain the facilities, which include 10 miles of interceptor sewer, an innovative and advanced wastewater treatment plant, and a dedicated farm for bio-solids reuse. Tri-Cities' facilities are often toured by schools, civic groups, and others interested in learning how technology and science, combined with the dedication of a talented professional staff, can preserve and enhance our irreplaceable water resource.

TRI-CITIES' ORGANIZATION AND REPORTING ENTITY

Prior to June of 1996, the Miami Conservancy District provided the Cities of Huber Heights, Vandalia, and Tipp City with wastewater treatment services. The Miami Conservancy District expressed the intent to discontinue these services to the Cities and gave them the option to acquire and operate the facility themselves. In order to do so, the three Cities established the Tri-Cities North Regional Wastewater Authority. In June of 1996, the Miami Conservancy District deeded the wastewater facility and all of the assets associated with the facility to the joint venture at no cost to the joint venture.

Tri-Cities is a joint venture among the Cities of Huber Heights, Vandalia, and Tipp City. A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Tri-Cities is a Stand–alone government that is governed by a management board consisting of the city managers of the three Cities. The board has complete authority over all aspects of the operation.

The reporting entity is comprised of the stand-alone government, component units and other organizations that are included to ensure that the financial statements are not misleading. The stand-alone government consists of 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 Tri-Cities appoints a voting majority of the organization's governing board and (1) Tri-Cities is able to significantly influence the programs or services performed or provided by the organization; or (2) Tri-Cities is legally entitled to or can otherwise access the organization's resources; Tri Cities is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or Tri-Cities is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on Tri-Cities in that Tri-Cities approves their budget, the issuance of their debt or the levying of their taxes. Tri-Cities has no component units.

ITEMS OF INTEREST

Tri-Cities' wastewater-treatment plant utilizes physical, biological and chemical processes to treat wastewater collected from the Cities of Huber Heights, Vandalia and Tipp City. The wastewater treatment process is very similar to that which occurs naturally in rivers and lakes, however; wastewater treatment plants are designed to speed up and enhance the natural cleaning process. The physical processes, the "primary" steps in treating wastewater, utilize screens, settling tanks and skimming devices to remove about half of the pollutants - mostly sand, grit and other heavy or large solids typically found in wastewater. The "secondary" step is a biological one where micro-organisms feed on the waste remaining in the water until about 85 percent of the pollutants are removed. A separate, advanced secondary step biologically removes ammonia. With more than 95 percent of the pollutants removed, the wastewater is chemically disinfected before it is released into the Great Miami River.

The organic solids removed in these treatment processes are further treated and stabilized to meet stringent regulatory standards for reuse on farmland. A dedicated pipeline was constructed as part of the north regional wastewater system to convey the stabilized sludge seven miles north to Tri-Cities' dedicated farm where it is temporarily stored in strategically placed tanks. Pumping sludge to the farm has allowed Tri-Cities to avoid the expense of owning, operating and maintaining a fleet of semi trucks and trailers. While this not only reduces wear and tear on city and county roads, it also minimizes workers' safety issues. Historically, at certain times of the year, sludge was withdrawn from the storage tanks into specially equipped field tankers pulled by tractors. Tri-Cities began use of a new dragline system in 2003 that greatly improves the efficiency of sludge injection because it replaces the use of tankers on most Tri-Cities' fields. This new umbilical type of operation involves pumping sludge directly to the tractor that pulls the hose and injection tool across the fields. Ultimately, sludge is incorporated directly into the soil approximately a foot below the surface where nutrients from the sludge enrich the soil and provide nearly 100 percent of the nitrogen needed for the grain crops grown on this farm. Reusing the sludge in this way has substantially reduced the use of commercial fertilizers.

In addition to returning clean water to the river and nutrients to the soil, the north regional wastewater treatment plant is equipped with engines fueled with methane gas, a byproduct of the sludge stabilization process. These gas engines drive pumps and turn generators that are capable of producing up to 100 percent of the electricity needed at the treatment plant.

Tri-Cities is equipped with a customized sewer maintenance and inspection vehicle used to evaluate, monitor and inspect the pipelines that convey sewage to the treatment plant. A special video camera is lowered into the sewers and records their condition on videocassette, which is useful for evaluating and prioritizing major sewer system repairs. A grout packer is often used to seal minor leaks. This vehicle is also equipped with portable meters used to measure how much wastewater flows through segments of the sewer system. Flow data is useful in identifying where leaks and unauthorized connections may be contributing to rainfall induced high flows.

An on-site laboratory is used to conduct thousands of tests each year. These tests are performed by operations staff and certified laboratory professionals. Test results are used to evaluate treatment process performance and to monitor compliance with permit limits. Samples are collected from various locations in the sewer system and the treatment plant as well as from groundwater monitoring wells at the farm. Samples from the Great Miami River are also collected upstream and downstream of the north regional wastewater treatment plant discharge point to monitor potential impacts on the river.

From the collection of raw wastewater to the reuse of stabilized sludge, the north regional facilities are proudly operated and maintained for Tri-Cities by a private company. An agreement for contract operation and maintenance has been in place since the facilities first came online, and employee-training certification is encouraged by the company to ensure quality performance and compliance with Tri-Cities' wastewater discharge permit.

Efficiency, compliance and safety were key ingredients in the design of the north regional wastewater treatment facilities, and continue to be three goals in day-to-day operations and maintenance. With the aid of programmable controllers and computerized monitoring systems, the north regional facilities are staffed just one shift per day, five days a week.

ECONOMIC CONDITIONS AND OUTLOOK

Tri-Cities grew financially during 2003. Continued sound fiscal management coupled with the assistance of members of Tri-Cities' Finance Committee provided financial stability and growth for the organization with net assets increasing by \$818,618.

MAJOR INITIATIVES

Construction of the Ross Road Pumping Station improvements project began in 2001 and the official initiation of operation of the new facility occurred on October 1, 2003.

Tri-Cities' main goal for 2003 was planning for capital improvements and growth within the service area. During the year, the newly established Planning and Development Committee continued their efforts to address the strategic goals included in the minutes of Tri-Cities' May 22, 2002, Strategic Planning Retreat. The technical committee focused on the planned parallel force main and relief sewers projects intended to optimize the flow capacity of the Tipp City interceptor and the north regional interceptor sewers. Through these committees' efforts, Tri-Cities is proactively identifying future capital improvements based upon projected growth in the region.

FINANCIAL INFORMATION

Basis of Accounting

Tri-Cities' financial records are maintained on a cash basis. Prior to year-end closing, adjusting entries are prepared to convert the cash basis records to the accrual basis of accounting. The accrual basis of accounting requires that revenues be recognized when they are earned. Expenses are recorded when they are incurred.

Internal Control Structure and Budgetary Control

Tri-Cities' accounting system includes internal accounting controls designed to provide reasonable but not absolute assurance regarding the safeguarding of assets and the reliability of financial records for preparation of financial statements. The concept of reasonable assurance states that internal control should be evaluated to insure that the expense associated with providing internal controls does not exceed the benefit expected to be derived from their implementation. This evaluation involves estimates and judgment by Tri-Cities administration. It is my belief that Tri-Cities financial controls adequately safeguard against loss of existing assets and provide reasonable assurance of the proper recording of financial transactions.

Financial Condition

This is the forth year Tri-Cities has prepared financial statements following GASB Statement 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." GASB 34 creates new basic financial statements for reporting on Tri-Cities' financial activities as follows:

The Tri-Cities North Regional Wastewater Authority basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The statement of net assets provides information about Tri-Cities as a whole. This statement includes the financial activities of the primary government and presents the financial conditions of Tri-Cities at year-end.

During the year, Tri-Cities accounts for all transactions in a single fund in order to aid financial management and to demonstrate legal compliance. The statement of revenue, expenses and changes in net assets and the statement of cash flows are designed to present additional financial information of Tri-Cities at this level.

As part of this new reporting model, management is responsible for preparing a Management's Discussion and Analysis of Tri-Cities. This discussion follows this letter of transmittal, providing an assessment of Tri-Cities finances for 2003.

Cash Management

Tri-Cities pursues an aggressive cash management program by expediting the receipt of revenues and prudently investing available cash. A private financial management consultant assists Tri-Cities in managing investments in accordance with Tri-Cities' investment policy. The total interest earned in 2003 was \$98.778.

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 and natural disasters. Property insurance coverage at December 31, 2003, is \$13,806,084, with a deductible of \$1,000. General liability insurance is \$1,000,000 per occasion and \$3,000,000 in aggregate with a \$1,000 deductible for both. Detail on additional insurance, including public officials, electronic data processing, contractor's equipment, crime, boiler and machinery and automobile can be found in Note 8 in the Notes to the Basic Financial Statements.

Tri-Cities pays the State Workers' Compensation system a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative cost.

OTHER INFORMATION

Independent Audit

An audit team from Clark, Schaefer, Hackett & Co. performed this year's audit. The results of the audit are presented in the Independent Auditors' Report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tri-Cities North Regional Wastewater Authority, Ohio, for its Comprehensive Annual Financial Report for the year ended December 31, 2002. This was the third year that the government has received this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe this report conforms to the Certificate of Achievement Program requirements, and I am submitting it to GFOA for consideration.

Acknowledgements

Thanks to everyone who contributed time and effort in helping me prepare this report.

I also want to thank the Local Government Services staff of Auditor of State, Betty Montgomery's office, for guidance and help in preparing this report.

Javid J. / Leefler David J. Heckler General Manager

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO LIST OF PRINCIPAL OFFICIALS FOR THE YEAR ENDED DECEMBER 31, 2003

BOARD OF TRUSTEES

Bruce Sucher City Manager, City of Vandalia

David A. Collinsworth City Manager, City of Tipp City

James W. Peirce City Manager, City of Huber Heights

APPOINTED OFFICIAL

David J. Heckler General Manager and Assistant Secretary

FINANCE COMMITTEE

Linda Chapman Finance Director, City of Vandalia

Richard Drennen Finance Director, City of Tipp City

Cathy Armocida Finance Director, City of Huber Heights

Technical Committee

John Mitchell City Engineer, City of Vandalia

John Geiger City Engineer, City of Huber Heights

Mo Eichman Director of Utilities, City of Tipp City

Planning & Development Committee

Hal Hunter Assistant City Manager, City of Vandalia

Mary Del Raso Planning & Development Director, City of Huber Height

Brad Vath Assistant City Manager, City of Tipp City

TCA Planning & Development Committee Mary Del Raso, City of Huber Heights Hal Hunter, City of Vandalia Brad Vath, City of Tipp City John Geiger, City of Huber Heights John Mitchell, City of Vandalia Mo Eichman, City of Tipp City TCA Technical Committee Board of Trustees & Records Management Committee James W. Pierce, City of Huber Heights Bruce Sucher, City of Vandalia David A. Collinsworth, City of Tipp City Support Services ATS Engineering, Inc. Dan Miklos Engineering & Technical City of Vandalia Linda Chapman Financial Services General Manager & Assistant Secretary David J. Heckler U.S. Filter Operating Services Operations & Maintenance Chester, Willcox & Saxbe Farm Operations David Wagner Holly Weatherhead Project Manager Legal Services John Bentine Cathy Armocida, City of Huber Heights Richard Drennen, City of Tipp City Linda Chapman, City of Vandalia TCA Finance Committee

TCA Organization

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Tri-Cities North

Regional Wastewater Authority,

Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the Tri-Cities North Regional Wastewater Authority, as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of Tri-Cities North Regional Wastewater Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 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, 2003, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we also have issued our report dated May 31, 2004 on our consideration of Tri-Cities North Regional Wastewater Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financials statements that collectively comprise Tri-Cities North Regional Wastewater Authority's basic financial statements. The Schedule of Revenues, Expenses and Changes in Fund Equity, Budget Basis and Actual, the introductory section, and the statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Revenues, Expenses and Changes in Fund Equity, Budget Basis and Actual have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Springfield, Ohio May 31, 2004

Clocker, Scharfer, Hackett \$6.

The discussion and analysis of Tri-Cities North Regional Wastewater Authority's (Tri-Cities) financial performance provides an overall review of the financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at Tri-Cities financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements, and the financial statements to enhance their understanding of Tri-Cities financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key Financial highlights for 2003 are as follows:

- Total net assets increased \$818,618 which represents a 3.7% increase from 2002.
- Total assets decreased \$120,457 which represents a 0.4% decrease from 2002. This decrease is largely due to depreciation of capital assets.
- Total liabilities decreased by \$939,075. Current liabilities decreased \$73,943. Non-current liabilities decreased by \$865,132 resulting primarily from principal and interest payments on Tri-Cities' OWDA loans exceeding proceeds received during 2003.
- Charges for Services remained constant due to no change in the current charge to member Cities
 of \$1.25 per thousand gallons of usage.

Using this Financial Report

This annual report consists of three parts, the MD&A, the basic financial statements, and an optional section that contains budgetary information. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. Since Tri-Cities only uses one fund for its operations, the entity wide and the fund presentations information is the same.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2003?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports Tri-Cities' net assets, however, in evaluating the overall position of Tri-Cities, non-financial information such as changes in the condition of Tri-Cities capital assets will also need to be evaluated.

Table 1 provides a summary of Tri-Cities' net assets for 2003 compared to 2002

Table 1 Net Assets

	2002	2003
Assets:		
Current Assets	\$6,714,321	\$6,785,478
Depreciable Capital Assets, Net	23,147,777	22,956,163
Land	2,151,749	2,151,749
Total Assets	32,013,847	31,893,390
Liabilities:		
Current and Other Liabilities	2,076,604	2,002,661
Long-Term Liabilities	7,920,996	7,055,864
Total Liabilities	9,997,600	9,058,525
Net Assets:		
Invested in Capital Assets, Net of Related Debt	16,095,632	16,674,207
Unrestricted	5,920,615	6,160,658
Total Net Assets	\$22,016,247	\$22,834,865

The net assets of Tri-Cities increased \$818,618 or 3.7 percent. With usage rates generating revenue, which reasonably matches expenses, the financial condition of Tri-Cities is relatively constant. Tri-Cities is continuously investing in its wastewater treatment plant through capital improvements and periodic upgrades of associated equipment. The decrease of \$120,457 in total assets results from depreciation of capital assets. Although a 3.7 percent increase in net assets may not seem that impressive, the reader must remember that Tri-Cities' intent is not to profit from this operation but to recover costs. Unrestricted Net Assets increased by \$240,043, and Invested in Capital Assets, Net of Related Debt also increased by \$578,575. Total Liabilities decreased \$939,075 with the majority of this decrease in long term liabilities associated with loan repayment of Tri-Cities three OWDA loans.

Table 2 shows the changes in net assets for the year ended December 31, 2003, as well as revenue and expense comparisons to 2002.

Table 2 Changes in Net Assets

Changes in Net Assets		
2002	2003	
\$3,219,328	\$3,235,217	
31,348	120,941	
4,415	100	
157,044	98,778	
3,412,135	3,455,036	
81,047	94,919	
1,389,004	1,396,268	
2,859	3,867	
622,181	789,672	
433,707	351,692	
2,990	0_	
2,531,788	2,636,418	
880,347	818,618	
21,135,900	22,016,247	
\$22,016,247	\$22,834,865	
	\$3,219,328 31,348 4,415 157,044 3,412,135 81,047 1,389,004 2,859 622,181 433,707 2,990 2,531,788 880,347 21,135,900	

Tri-Cities' only activity is business-type activity, which is the operation of the wastewater treatment plant (including associated piping and facilities). The wastewater treatment plant treats sewage from the three member communities and a small portion of Miami County. 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 are adjusted each year accordingly. Rates charged for usage remained constant from 2002 through 2003, however, charges for services revenue increased slightly due to increased usage by member Cities. Tri-Cities' board retained an outside contractor to manage daily operations and these amounts are reflected as part of the contractual services expense. During 2003, the plant generated revenues from charges for services in excess of \$3.2 million and had total expenses of approximately \$2.6 million. Aggressive investing practices earned interest income of \$98,778 for Tri-Cities during 2003, which reflects a decrease of \$58,266 from 2002. The decrease is due to lower interest rates due to the slow down in the economy. The interest expense of \$351,692 for 2003 resulted from outstanding loans from the Ohio Water Development Authority (OWDA).

Capital Assets and Debt Administration

Capital Assets

Table 3
Capital Assets, Net of Depreciation

	2002	2003
Land	\$2,151,749	\$2,151,749
Infrastructure	2,091,411	2,007,118
Buildings and Improvements	15,462,679	15,679,352
Machinery and Equipment	5,564,096	5,250,288
Licensed Vehicles	29,591	19,405
Totals	\$25,299,526	\$25,107,912

A review of Table 3 shows that capital assets (net of depreciation) decreased \$191,614. While Buildings and Improvements increased, the overall decrease is mainly a result of depreciation of capital assets, exceeding capital asset additions for the year.

See Note 5 of the notes to the basic financial statements for more detailed information.

Debt

At December 31, 2003, Tri-Cities had three outstanding OWDA loans totaling \$8,433,705; \$1,377,841 of which is due within one year. This reflects a \$770,189 overall decrease from 2002 in the OWDA loans liability.

Table 4
Outstanding Debt at Year End

	2002	2003
OWDA Loans Payable:		
1993 Loan - 9.98%	\$3,025,634	\$2,111,426
2000 Loan - 4.66%	1,652,993	1,594,594
2001 Loan - 0.27%	4,525,267	4,727,685
Total	\$9,203,894	\$8,433,705

The 1993 loan was received by the Miami Conservancy District and assumed by Tri-Cities when the joint venture was formed. This loan was assumed by Tri-Cities when it was deeded the treatment plant from the District and it matures in 2005. The 2000 loan was issued for the nitrification process improvement project and it matures in 2021. The 2001 loan was issued for the Ross Road pumping station improvement project and it matures in 2022.

See Note 6 of the notes to the basic financial statements for more detailed information.

Current Financial Issues and Concerns

At December 31, 2003, Tri-Cities had total assets of \$31,893,390 and total net assets of \$22,834,865 which resulted from a change in net assets of \$818,618. This represents a return on assets of 2.57 percent and a return on net assets of 3.58 percent during 2003. Ongoing prudent management of Tri-Cities' resources by the Board of Trustees provided financial growth during 2003.

Contacting Tri-Cities

This financial report is designed to provide the citizens, taxpayers and consumers of the Cities of Huber Heights, Vandalia and Tipp City, creditors and investors with a general overview of Tri-Cities' finances and to show Tri-Cities' accountability for the monies it receives. If you have any questions about this report or need additional financial information, contact David J. Heckler, Tri-Cities' General Manager, 3777 Old Needmore Road, Dayton, Ohio 45424, 937-236-6558 or email to dheckler@tri-cities.org.

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO STATEMENT OF NET ASSETS DECEMBER 31, 2003

Assets: Current Assets:	* ***********************************
Investments	\$6,043,280
Investments With Fiscal Agent	221,908
Accounts Receivable	507,719
Accrued Interest Receivable	12,571
Total Current Assets	6,785,478
Noncurrent Assets:	
Depreciable Capital Assets, Net	22,956,163
Land	2,151,749
Total Noncurrent Assets	25,107,912
Total Assets	31,893,390
Liabilities: Current Liabilities:	
Accounts Payable	224,267
Accrued Wages and Benefits Payable	255
Intergovernmental Payable	2,568
Accrued Interest Payable	152,573
Compensated Absences Payable	9,104
Retainage Payable	236,053
Current Portion of OWDA Loans	1,377,841
Total Current Liabilities	2,002,661
Noncurrent Liabilities:	,,,,,
OWDA Loans	7,055,864
- · · - · · · · · · · · · · · · · · · ·	
Total Liabilities	9,058,525
Net Assets:	
Invested in Capital Assets, Net of Related Debt	16,674,207
Unrestricted	6,160,658
Total Net Assets	\$22,834,865

See accompanying notes to the basic financial statements

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2003

Operating Revenues:	
Charges for Services	\$3,235,217
Rentals	120,941
Other Operating Revenues	100_
Total Operating Revenues	3,356,258
Operating Expenses:	
Personal Services	94,919
Contractual Services	1,396,268
Materials and Supplies	3,867
Depreciation	789,672
Total Operating Expenses	2,284,726
Operating Income	1,071,532
Nonoperating Revenues (Expenses):	
Interest Income	98.778
Interest and Fiscal Charges	(351,692)
Total Nonoperating Revenues (Expenses)	(252,914)
Change in Net Assets	818,618
Net Assets Beginning of Year	22,016,247
Net Assets End of Year	\$22,834,865

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2003

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities: Cash Received from Customers	\$3,270,233
Other Operating Revenues	100
Cash Payments for Employee Services and	
Benefits	(90,247)
Cash Payments to Suppliers for Goods and Services	(1,526,238)
Net Cash Provided by Operating Activities	1,653,848
Cash Flows from Capital and Related Financing Activities:	
Principal Paid On OWDA Loan Payable	(1,282,898)
Interest Paid on OWDA Loan Payable	(399,147)
Proceeds from OWDA Loan	512,709
Acquisition of Capital Assets	(598,058)
Net Cash Used for Capital and Related Financing	
Activities	(1,767,394)
Cash Flows from Investing Activities:	
Interest	100,144
Purchase of Investments	(3,367,080)
Sale of Investments	3,380,482
Net Cash Provided by Investing Activities	113,546
Net Increase in Cash and Cash Equivalents	0
Cash and Cash Equivalents Beginning of Year	0
Cash and Cash Equivalents End of Year	<u>\$0</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$1,071,532
Adjustments: Depreciation (Increase)/Decrease in Assets:	789,672
Increase in Accounts Receivable Increase/(Decrease) in Liabilities:	(85,925)
Decrease in Contracts Payable	(36,676)
Decrease in Retainage Payable	(1,167)
Decrease in Accounts Payable	(88,260)
Decrease in Accrued Wages and Benefits Payable	(2,271)
Decrease in Intergovernmental Payable	(860)
Increase in Compensated Absences Payable	7,803
Net Cash Provided by Operating Activities	\$1,653,848

Non-cash Investing Activities:

See accompanying notes to the basic financial statements

Tri-Cities had a decrease in the fair value of investments in the amount of \$4,066 during 2003.

NOTE 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 are 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, 2003, and 2002.

	2003	2002
Vandalia	26.71%	27.58%
Tipp City	20.45	18.50
Huber Heights	52.84	53.92
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 Tri-Cities 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. Component units may also include organizations that are fiscally dependent on Tri-Cities in that Tri-Cities approves their budget, the issuance of their debt or the levying of their taxes. Based upon the application of these criteria, Tri-Cities has no component units.

NOTE 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, provided they do not conflict with or contradict GASB pronouncements. Tri-Cities has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the Tri-Cities accounting policies are described below.

A. Basis of Presentation

The Tri-Cities North Regional Wastewater Authority basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

Tri-Cities uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of Tri-Cities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how Tri-Cities finances and meets the cash flow needs of its enterprise activity.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Tri-Cities financial statements are prepared using the accrual basis of accounting.

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

D. Investments

During 2003, investments included a repurchase agreement, a money market mutual fund, commercial paper, Federal Home Loan Bank (FHLB) notes and Federal Home Loan Mortgage Company Notes (FHLMC).

Retainage amounts are held by Tri-Cities in a separate bank account. The balance of this account is presented on the statement of net assets as "investments with fiscal agent."

Investments are reported at fair value which is based on quoted market prices, except for nonparticipating repurchase agreement, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's current share price.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For purposes of the statement of cash flows and for presentation on the statement of net assets, all interest bearing instruments are recorded as investments.

E. Capital Assets

Capital assets utilized by Tri-Cities are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Tri-Cities maintains a capitalization threshold of one thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Infrastructure	65 years
Buildings and Improvements	45-50 years
Machinery and Equipment	5-15 years
Licensed Vehicles	6 years

Tri-Cities' policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straightline basis over the estimated useful life of the asset. For 2003, no material interest costs were incurred on construction projects for Tri-Cities.

F. 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 include 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Tri-Cities or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Tri-Cities applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Tri-Cities did not have any restricted net assets for 2003.

H. Operating and Nonoperating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For Tri-Cities, these revenues are charges for services, rentals, and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of Tri-Cities.

Nonoperating revenues are those revenues that are not generated directly from primary activities. For Tri-Cities, this revenue is interest income. Nonoperating expenses are costs other than those necessary costs incurred to provide the goods or services that are the primary activity of Tri-Cities.

I. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. Tri-Cities did not have any capital contributions during 2003.

J. Estimates

The preparation of the 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.

NOTE 3 - 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.

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits. At fiscal year end, the carrying amount of Tri-Cities' deposits was \$1,650,395 and the bank balance was \$1,650,395. Of the bank balance:

1. \$100,000 of the bank balance was covered by federal depository insurance; and

\$1,550,395 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject Tri-Cities to a successful claim by the FDIC.

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, unless matched to a specific cash flow requirement.

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

- 1. Bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States.
- 2. Short-term discount obligations of the Federal National Mortgage Association (FNMA).
- 3. State Treasury Asset Reserve of Ohio (STAR Ohio).
- 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.

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

- 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; (3) 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 2003, Tri-Cities continued to diversify the investment portfolio to gain a higher rate of return while still maintaining liquidity and minimizing risk consistent with the aforementioned portfolio policy. Investments included a repurchase agreement, U.S. Treasury Fund money market, GE Interest Plus commercial paper, Federal Home Loan Bank (FHLB) notes and Federal Home Loan Mortgage Company (FHLMC) Notes. 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 securities 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.

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. Mutual fund investments are unclassified since they are not evidenced by securities that exist in physical or book entry forms.

		Category	Carrying/Fair
	Unclassified	2	Value
Repurchase Agreement	\$0	\$1,392,809	\$1,392,809
Money Market Mutual Fund	1,190,787	0	1,190,787
GE Interest Plus Commercial Paper	0	449,016	449,016
Federal Home Loan Bank Notes (FHLB)	0	750,000	750,000
Federal Home Loan Mortgage Company Notes (FHLMC)	0	832,181	832,181
Total	\$1,190,787	\$3,424,006	\$4,614,793

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. The reconciliation between classifications of cash and investments on the basic financial statements and the classifications per GASB Statement No. 3 is as follows:

	Primary Government		
	Cash and		
	Cash Equivalents Investment		
GASB Statement No. 9	\$0	\$6,265,188	
Max Saver Plus Account with Fiscal Agent	221,908	(221,908)	
Max Saver Plus Account	1,428,487	(1,428,487)	
GASB Statement No. 3	\$1,650,395	\$4,614,793	

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable represent monies due from the City of Vandalia, City of Huber Heights and Tipp City for their portion of sewage treatment services. No allowance for doubtful accounts has been recorded as all amounts are considered collectible. All receivables are expected to be collected within one year.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
Capital Assets, not being Depreciated:				
Land	\$2,151,749	\$0	\$0	\$2,151,749
Capital Assets, being Depreciated:				
Infrastructure	2,576,199	0	0	2,576,199
Buildings and Improvements	16,766,921	577,782	0	17,344,703
Machinery and Equipment	7,574,757	20,276	0	7,595,033
Licensed Vehicles	83,946	0	0	83,946
Total Capital Assets, being Depreciated	27,001,823	598,058	0	27,599,881
Less Accumulated Depreciation:				
Infrastructure	(484,788)	(84,293)	0	(569,081)
Buildings and Improvements	(1,304,242)	(361,109)	0	(1,665,351)
Machinery and Equipment	(2,010,661)	(334,084)	0	(2,344,745)
Licensed Vehicles	(54,355)	(10,186)	0	(64,541)
Total Accumulated Depreciation	(3,854,046)	(789,672)	0	(4,643,718)
Total Capital Assets, being Depreciated, Net	23,147,777	(191,614)	0	22,956,163
Capital Assets, Net	\$25,299,526	(\$191,614)	\$0	\$25,107,912

NOTE 6 - OWDA LOAN PAYABLE

Changes in OWDA loans payable during 2003 were as follows:

	Amount Outstanding December 31, 2002	Increase	Decrease	Amount Outstanding December 31, 2003	Amounts Due Within One Year
9.98% OWDA Loan	\$3,025,634	\$0	\$914,208	\$2,111,426	\$1,005,446
4.66% OWDA Loan	1,652,993	2,570	60,969	1,594,594	63,843
.27% OWDA Loan	4,525,267	510,139	307,721	4,727,685	308,552
Total OWDA Loans	\$9,203,894	\$512,709	\$1,282,898	\$8,433,705	\$1,377,841

Tri-Cities had three OWDA Loans outstanding at December 31, 2003, in the amounts of \$2,111,426, \$1,594,594 and \$4,727,685 for a total of \$8,433,705. The loans bear interest rates of 9.98, 4.66, and 0.27 percent per annum and are payable in semi-annual installments through 2005, 2021, and 2022, respectively. The \$2,111,426 loan was originally received by the Miami Conservancy District during 1993 in the amount of \$8,100,589 and was 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 \$1,594,594 loan was issued during 2000 for the nitrification improvement project. The total amount of the loan is \$1,871,341, of which \$2,570 was received during 2003 with the rest to be received during 2004. The loan was issued with an interest rate of 4.66% with final maturity of January 1, 2021. Current operations are expected to provide cash flows for the repayment of this loan.

The \$4,727,685 loan was issued during 2001 for the Ross Road pumping station improvement project. The total amount of the loan is \$6,324,440, of which \$510,139 was received during 2003 with the rest to be received during 2004. The loan was issued with an interest rate of .27% with final maturity of July 1, 2022. Current operations are expected to provide cash flows for the repayment of this loan.

The annual debt service requirements for payment of principal and interest at December 31, 2003, are as follows:

	Principal	Interest
2004	\$1,377,841	\$304,202
2005	1,482,220	199,826
2006	380,227	85,651
2007	384,365	81,513
2008	388,662	77,217
2009-2013	2,013,809	315,583
2014-2018	2,149,546	179,846
2019-2022	257,035	26,593
Totals	\$8,433,705	\$1,270,431

NOTE 7 - RELATED PARTY TRANSACTION

Tri-Cities was party to several transactions during 2003 involving the three member cities, which are summarized as follows:

A. Accounts Receivable

Accounts Receivable as of December 31, 2003, includes the balance due from the member cities for sewage treatment services provided to the Cities' residents. The amounts included in accounts receivable from member cities is as follows:

	2003		
Vandalia	\$78,806		
Tipp City	106,464		
Huber Heights	267,623		
Total	\$452,893		

B. Charges for Services

Charges for services for 2003 include the amounts charged to the member cities for sewage treatment services provided to the Cities' residents. The amount included in charges for services from member cities is as follows:

	2003		
Vandalia	\$855,781		
Tipp City	607,113		
Huber Heights	1,693,093		
Total	\$3,155,987		

NOTE 8 - 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.

NOTE 8 - RISK MANAGEMENT (continued)

The following is a list of insurance coverage and deductibles for 2003:

Coverage	Limit	Deductible
Property	\$13,806,084	\$1,000
General Liability:		
Per Occasion	1,000,000	1,000
Aggregate	3,000,000	1,000
Public Officials:		
Per Occasion	1,000,000	1,000
Aggregate	1,000,000	1,000
Umbrella	3,000,000	None
Electronic Data Processing	250,000	1,000
Contractors Equipment	909,172	None
Crime:		
Employee Dishonesty	50,000	250
Money and Securities	1,000	250
Boiler and Machinery	500,000	1,000
Automobile:		
Liability	1,000,000	None
Comprehensive	Actual Cash Value	100
Collision	Actual Cash Value	250
Uninsured Motorist	500,000	100

There was a \$2,000,000 decrease from the prior year in the automobile liability insurance coverage. 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.

NOTE 9 - PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT PENSION PLAN

Tri-Cities participates 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% 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 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the one Tri-Cities employee elected the traditional plan and was required to contribute 8.5 percent of his annual covered salary. Tri-Cities contribution rate for pension benefits for 2003 was 8.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

Tri-Cities required contributions for pension obligations to the traditional plan for the years ended December 31, 2003, 2002, and 2001 were \$5,959, \$5,639, and \$5,178 respectively; 98.27 percent has been contributed for 2003 and 100 percent for 2002 and 2001.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

NOTE 10 - POSTEMPLOYMENT BENEFITS (continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$3,572. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

NOTE 11 - 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.

B. Insurance Benefits

Tri-Cities employee has term life insurance through Protective Life Insurance Company.

NOTE 11 - OTHER EMPLOYEE BENEFITS (continued)

C. 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 \$1,648 at December 31, 2003.

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. The total obligation for sick leave accrual for Tri-Cities amounted to \$7,456 at December 31, 2003.

NOTE 12 - CONTRACTUAL COMMITMENTS

As of December 31, 2003, Tri-Cities had contractual purchase commitments as follows:

Company	Amount
US Filter Operating Service	\$198,845
Force Main Design	67,500
Chester Willcox and Saxbe LLP	22,946
Ats Engineering Inc	10,602
H R Gray and Associates Inc	25,000
URS Greiner Woodward Clyde	15,483
Koker	56,834
Kokosing Construction	314,151
Piping Solutions	11,867
York Electric	211,914

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Supplementary Information

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - BUDGET (NON-GAAP) BASIS AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted	Amount		Variance With Final Budget Positve	
	Original	Final	Actual	(Negative)	
Revenues:					
Charges for Services	\$3,027,102	\$3,061,882	\$3,193,434	\$131,552	
Interest	100,000	83,480	93,407	9,927	
Rentals	71,385	75,449	76,799	1,350	
Proceeds from Loan	0	586,240	512,709	(73,531)	
Proceeds from Sale of Capital Assets	250,000	0	0	0	
Other	0	100	100	0	
Total Revenues	3,448,487	3,807,151	3,876,449	69,298	
Expenses:					
Current:					
Personal Services	94,066	94,066	87,558	6,508	
Contractual Services	2,305,380	2,380,380	2,354,037	26,343	
Materials and Supplies	8,323	8,323	5,012	3,311	
Other	5,000	5,000	0	5,000	
Capital Outlay	867,269	3,256,520	3,141,750	114,770	
Debt Service:					
Principal Retirement	1,686,074	1,286,927	1,282,898	4,029	
Interest and Fiscal Charges	0	399,147	399,147	0	
Total Expenses	4,966,112	7,430,363	7,270,402	159,961	
Excess of Revenues Under Expenses	(1,517,625)	(3,623,212)	(3,393,953)	229,259	
Fund Equity at Beginning Year	5,382,669	5,382,669	5,382,669	0	
Prior Year Encumbrances Appropriated	906,724	906,724	906,724	0	
Fund Equity at End of Year	\$4,771,768_	\$2,666,181	\$2,895,440	\$229,259	

The following table summarizes the adjustments necessary to reconcile the change in net assets to the excess of revenues under expenses.

Change in Net Assets	\$818,618
Net Adjustments for Revenue Accruals	(87,248)
Net Adjustments for Expense Accruals	(166,197)
Decrease in Fair Value of Investments - 2002	(10,803)
Decrease in Fair Value of Investments - 2003	4,066
Unrecorded Cash - 2003	2,689
OWDA Proceeds	512,709
Capital Outlay	(598,058)
Depreciation	789,672
Principal Payments	(1,282,898)
Encumbrances	(3,376,503)
Excess of Revenues Under Expenses	(\$3,393,953)



STATISTICAL SECTION

THE FOLLOWING UNAUDITED STATISTICAL TABLES REFLECT SOCIAL AND ECONOMIC DATA, FINANCIAL TRENDS AND FISCAL CAPACITY OF TRI-CITIES

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY
MONTGOMERY COUNTY, OHIO
EXPENSES BY PROGRAM
LAST EIGHT YEARS

TOTAL	\$420,485	3,165,112	2,519,275	2,531,330	2,484,760	2,301,727	2,095,091	2,284,726
OTHER	0\$	8,701	366,236	0	62,849	962	0	0
DEBT	0\$	1,267,913	0	0	0	0	0	0
CAPITAL OUTLAY	\$41,691	300,558	0	0	0	0	0	0
DEPRECIATION	\$0	0	581,768	604,032	612,196	627,408	622,181	789,672
MATERIALS AND SUPPLIES	\$12,580	26,275	4,226	427,273	32,432	21,013	2,859	3,867
CONTRACTUAL	\$348,755	1,493,080	1,495,988	1,429,394	1,723,908	1,574,093	1,389,004	1,396,268
PERSONAL SERVICES	\$17,459	68,585	71,057	70,631	53,375	78,417	81,047	94,919
YEAR	1996 (1) (2)	1997 (1)	1998 (3)	1999 (3)	2000 (3)	2001 (3)	2002 (3)	2003 (3)

SOURCE: Finance Office, Tri-Cities

(1) Tri-Cities reported on a cash basis in 1996 and 1997.

(2) Finaincial information for 1996, reflects partial year activity. Tri-Cities did not exist prior to June, 1996.

(3) Tri-Cities reported on a GAAP basis in 1998, 1999, 2000, 2001, 2002, and 2003.

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY
MONTGOMERY COUNTY, OHIO
REVENUES BY SOURCE
LAST EIGHT YEARS

TOTAL	\$1,249,751	3,584,981	3,769,208	3,479,922	3,749,909	3,424,214	3,412,135	3,455,036
ОТНЕК	\$463	17,406	56,439	62,902	2,837	433	4,415	100
GAIN ON SALE OF CAPITAL ASSETS	0\$	0	0	0	1,572	0	0	0
INTEREST	\$56,856	238,157	293,400	170,291	370,187	325,036	157,044	98,778
RENTALS	\$34,435	52,290	0	53,525	63,433	64,737	31,348	120,941
INTERGOVERNMENTAL	\$0	1,339	0	0	0	0	0	0
CHARGES FOR SERVICES	\$1,157,997	3,275,789	3,419,369	3,193,204	3,311,880	3,034,008	3,219,328	3,235,217
YEAR	1996 (1) (2)	1997 (1)	1998 (3)	1999 (3)	2000 (3)	2001 (3)	2002 (3)	2003 (3)

SOURCE: Finance Office, Tri-Cities

(1) Tri-Cities reported on a cash basis in 1996 and 1997.

(2) Finaincial information for 1996, reflects partial year activity. Tri-Cities did not exist prior to June, 1996.

(3) Tri-Cities reported on a GAAP basis in 1998, 1999, 2000, 2001, 2002, and 2003.

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO OWDA LOAN PAYABLE COVERAGE LAST SEVEN YEARS (1)

	COVERAGE	1.14	1.21	1.09	1.22	1.06	1.29	1.11
DEBT SERVICE REQUIREMENTS	TOTAL	\$1,267,913	1,267,913	1,267,913	1,232,058	1,341,056	1,383,355	1,682,045
	INTEREST	\$716,516	662,349	602,844	501,608	510,650	469,823	399,147
	PRINCIPAL	\$551,397	605,564	692,069	730,450	830,406	913,532	1,282,898
NET REVENUE	AVAILABLE FOR DEBT SERVICE	\$1,449,625	1,538,301	1,382,333	1,505,586	1,424,859	1,782,181	1,861,204
	OPERATING EXPENSES (3)	\$1,897,199	1,937,507	1,927,298	1,872,564	1,674,319	1,472,910	1,495,054
	GROSS REVENUES (2)	\$3,346,824	3,475,808	3,309,631	3,378,150	3,099,178	3,255,091	3,356,258
	YEAR	1997	1998	1999	2000	2001	2002	2003

Source: Tri-Cities financial records

(1) The debt expenses for 1996 were paid prior to Tri-Cities being organized.

(2) Gross revenues exclusive of interest income and gain on sale of fixed assets.

(3) Total operating expenses exclusive of depreciation.

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO DEMOGRAPHIC STATISTICS LAST EIGHT YEARS

YEAR	POPULATION VANDALIA	POPULATION HUBER HEIGHTS	POPULATION TIPP CITY
1996 (2)	13,790	38,939	6,411
1997 (2)	13,790	38,939	6,411
1998 (2)	13,790	38,939	6,411
1999 (2)	13,790	38,939	6,411
2000 (1)	14,603	38,686	9,221
2001 (1)	14,603	38,686	9,221
2002 (1)	14,603	38,686	9,221
2003 (1)	14,603	38,686	9,221

SOURCE: (1) 2000 Census

(2) 1990 Census

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO SCHEDULE OF PARTICIPATING CITIES' EQUITY INTEREST LAST SEVEN YEARS (1)

2003	26.71%	20.45	52.84	100.00%
2002	27.58%	18.50	53.92	100.00%
2001	27.06%	17.84	55.10	100.00%
2000	27.09%	17.12	55.79	100.00%
1999	27.95%	17.72	54.33	100.00%
1998	28.64%	18.89	52.47	100.00%
1997	28.24%	19.66	52.10	100.00%
	Vandalia	Tipp City	Huber Heights	Total

(1) 1996 information was not available.

TRI-CITIES NORTH REGIONAL WASTEWATER AUTHORITY MONTGOMERY COUNTY, OHIO MISCELLANEOUS STATISTICS DECEMBER 31, 2003

Year of Incorporation	1996
Form of Government	Joint Venture
Number of Full Time Employees	1
Miles of Sewer Line	10
Number of Manholes	112
Number of Siphons	1
Number of Pump Stations	1
Number of Booster Stations	1

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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.

CLERK OF THE BUREAU

Susan Babbitt

CERTIFIED AUGUST 5, 2004