



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Mahoning Valley Sanitary District
Trumbull County
1181 Ohltown McDonald Road
Mineral Ridge, Ohio 44440

To the Board of Directors:

We have audited the accompanying financial statements of the Mahoning Valley Sanitary District, Trumbull County, Ohio, (the District) as of and for the year ended June 30, 2000. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these 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.

As discussed in Note 1, the District prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the District as of June 30, 2000, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

As more fully described in Note 7, on August 7, 1997, the Auditor of State issued a special audit report on the Mahoning Valley Sanitary District, which included findings for recovery of \$2.7 million against former management of the District and certain vendors. The Ohio Attorney General is pursuing civil collective action. The effects of this special audit and subsequent continuing investigations cannot be determined at this time but which may be material, have not been reflected in the accompanying financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2000 on our consideration of the District'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.

This report is intended solely for the information and use of management, the Board of Directors, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 28, 2000

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES- ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2000**

	Maintenance Fund	Bond Fund	Bond Retirement Fund	Totals (Memorandum Only)
Cash Receipts:				
Water Revenue				
City of Youngstown	\$1,232,081	\$3,036,747	\$955,776	\$5,224,604
City of Niles	371,501	950,299	288,519	1,610,319
Village of McDonald	31,824	92,155	24,701	148,680
Timber Sales	178,510			178,510
Royalties	7,783	39,553		47,336
Earnings on Investments	4,340	84,639	203,343	292,322
Capital Charge-Village of McDonald	38,728	55,171	33,626	127,525
Accrued Interest-Pay't 98 Bond	40,192			40,192
Levy Receipts-Youngstown			1,340,415	1,340,415
Levy Receipts-Niles			399,253	399,253
Reoffering Premium- 1999 Bonds		16		16
Insurance Reimbursement		31,601		31,601
Bond Interest Receipts		107,858	96,576	204,434
Miscellaneous	109	925		1,034
Total Cash Receipts	1,905,068	4,398,964	3,342,209	9,646,241
Cash Disbursements:				
Personal Service	2,254,097			2,254,097
Equipment	26,313			26,313
Supplies and Services	1,884,372			1,884,372
Burgess and Niple-Feas. Study	3,840	8,000		11,840
Forestry Consultant	17,851			17,851
Berlin Pump Station Repairs	6,500			6,500
Capital Charge-Village of McDonald	93,899			93,899
Raw Water Study	34,775	1,067		35,842
Bank Service Charges	160		13,394	13,554
Permits- Fees		2,500		2,500
POS/Official Statement		6,500		6,500
Verification Agent		4,000		4,000
Bond Ratings		36,949		36,949
Administrative Fees- 94 and 99 Bonds		3,542		3,542
1999 Series Bond Insurance		379,393		379,393
Bond Interest Expense- 94 Bonds			1,076,891	1,076,891
Bond Interest Expense- 98 Bonds			1,576,392	1,576,392
1998 Principal Payments			810,000	810,000
Underwriters Discount		325,304		325,304
Financial Advisor		108,581		108,581
Trustee and Bond Counsel Fees		135,662	1,175	136,837
Board of Directors- NY Expense		817		817
Interest Rebate to Youngstown			73,588	73,588
Interest Rebate to Niles			21,919	21,919
Miscellaneous	22,752	3,307	200	26,259
Total Disbursements	4,344,559	1,015,622	3,573,559	8,933,740
Total Receipts Over/(Under) Disbursements	(2,439,491)	3,383,342	(231,350)	712,501
Other Financing Receipts/(Disbursements):				
Bond Proceeds- 1999		30,775,000		30,775,000
1994 Bonds-Defeasance		(31,175,318)		(31,175,318)
Transfers-In	2,432,232	4,283,095	7,498,402	14,213,729
Transfers-Out		(7,158,330)	(7,055,399)	(14,213,729)
Total Other Financing Receipts/(Disbursements)	2,432,232	(3,275,553)	443,003	(400,318)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(7,259)	107,789	211,653	312,183
Fund Cash Balances July 1	931,456	619,985	8,172,168	9,723,609
Fund Cash Balances, June 30	\$924,197	\$727,774	\$8,383,821	\$10,035,792
Reserves for Encumbrances, December 31	\$175,157			

The notes to the financial statements are an integral part of this statement.

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**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Mahoning Valley Sanitary District, Trumbull County, (the District) is a political subdivision of the state and a body corporate created under Section 6115.08 of the Ohio Revised Code (The Sanitary District Act of Ohio) for the purpose of providing a water supply for domestic, municipal, and public use to the Cities of Youngstown and Niles, and the Village of McDonald.

On February 5, 1998, Substitute House Bill 26 was enacted to amend various sections of the Revised Code. This bill altered the composition and method of appointment of the members of the Board of Directors of the District, limited the compensation paid and benefits provided to board members; required the members of the board to file financial disclosure statements with the Ohio Ethics Commission, and subjected the District to financial certification requirements prior to expending moneys.

The Board of Directors of the Mahoning Valley Sanitary District is made up of four members. One is appointed by the Mayor of the City of Youngstown, one by the Mayor of the City of Niles, one by the Youngstown City Council, and one by the Niles City Council.

The Sanitary District Advisory Council consists of members who have been appointed from each municipal corporation or township that receives all or part of its water supply directly or indirectly from the District.

The position of Secretary and Treasurer was combined on January 15, 1997. The Secretary/Treasurer is the fiscal officer of the District and the custodian of the records of the District and its corporate seal.

The chief engineer is the superintendent of all the public works and improvements.

The District's management believes these financial statements present all activities for which the District is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments

Repurchase agreements and US Treasury Bills are valued at cost. The Monitor Treasury MKT FD VI are recorded at share values reported by the fund.

D. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following statutory types:

1. Maintenance Fund

This fund is required by Section 6115.45, Ohio Revised Code. All moneys received as compensation for providing a water supply for domestic, municipal, and public use under Section 6115.19 Ohio Revised Code is added to the maintenance fund of the District for the purpose of supplying water.

The Maintenance Fund is the operating fund of the Sanitary District.

2. Bond Retirement Funds

These funds are required by a bond covenant. They are used to account for accumulation of resources and for the payment of principal, interest, and related costs. Significant Bond Retirement Funds are:

1998 Bond Series Fund

This fund is used to account for accumulation of resources for the payment of principal, interest and related cost of the 1998 Bond Series.

1998 Bond Series Debt Service Reserve Fund

The interest in this account is utilized to make interest and principal payments when due. This reduces the amount that is needed from the Bond Revenue Account.

1999 Bond Series Fund

This fund is used to account for accumulation of resources for the payment of principal, interest and related cost of the 1999 Bond Series.

1999 Bond Series Debt Service Reserve Fund

The interest in this account is utilized to make interest and principal payments when due. This reduces the amount that is needed from the Bond Revenue Account.

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Bond Funds

The "bond fund" consisting of the proceeds of levies made against the special assessments of benefits equalized and confirmed under Chapter 6115, Ohio Revised Code, and, as to sanitary districts organized for the purpose of providing a water supply, the proceeds of the sale of water pursuant to section 6115.19 of the Revised Code and the proceeds of bonds issued under this chapter. The significant Bond Fund is:

Revenue Account Fund

This fund receives operating revenue due from water Districts, based on an approved water rate schedule. A percentage of the proceeds from this fund are transferred to the Maintenance Fund which is the operating fund of the Sanitary District for operating the expenses for the District. A percentage of the proceeds are also used for debt service payments.

At year end any excess funds that were not used may be transferred to the District's Capital Replacement Account Bond Fund and/or Remaining Revenue Account Bond Fund, as required by a bond covenant.

E. Budgetary Process

The Ohio Revised Code requires that the Maintenance Fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund or function level of control, and appropriations may not exceed estimated resources. The Board of Directors must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

2. Estimated Resources

Estimated resources include an estimate of cash to be received (budgeted receipts) plus unencumbered cash as of July 1.

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of 2000 budgetary activity appears in Note 3.

F. Major Source of Revenue

The major source of revenue for the District is the exclusive sale of water to the cities of Youngstown and Niles, and the Village of McDonald.

G. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

I. Total Columns of Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2000 was as follows:

Demand Deposits	\$ 2,338
Treasury Notes	3,531,745
Repurchase Agreements	<u>6,501,709</u>
Total investments	<u>10,033,454</u>
Total deposits and investments	<u><u>\$ 10,035,792</u></u>

Deposits: 2000 Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENT (Continued)

Investments: The Sanitary District uses commercial banks to manage its overnight investments of available money in its checking accounts. These funds are swept into overnight repurchase agreement funds and are uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in the District's name. Treasury notes are held in book-entry form by the Federal Reserve, in the name of the Sanitary District's financial institutions. The financial institutions maintain records identifying the District as owner of these securities.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2000 follows:

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Maintenance Fund	\$ 4,394,121	\$ 4,337,300	\$ (56,821)

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Maintenance Fund	\$ 4,794,677	\$ 4,519,716	\$ 274,961

4. DEBT

The District defeased the outstanding debt of the Series 1994 Water Revenue Bonds. The District refinanced this debt with the issuance of the Water Revenue Refunding Bonds, Series, 1999. The original Water Revenue Bonds issued in 1994 were used to pay the 7.9 million dollar bond anticipation note, as well as providing funds for the Environmental Protection Agency clear well project, designed and engineering and project management of same. The interest rates of the 1994 bonds ranged from 4.65% at the lowest level to 7.75% at their highest. The Series 1999 refunding water revenue bonds have a blended rate of 5.5752%.

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

4. DEBT (Continued)

Debt outstanding at June 30, 2000 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds	\$ 19,875,000	5%
Water Revenue Bonds	<u>30,775,000</u>	6%
Total	<u>\$ 50,650,000</u>	

Outstanding general obligation bonds consist of the District's construction issues. General obligation bonds are direct obligations of the District for which its full faith, credit, and resources are pledged and payable from assessments levied on the cities of Youngstown and Niles, and paid through their water departments.

Proceeds from the water revenue bonds were used for:

1. Financing certain improvements to the District's water supply system,
2. Retiring all of the outstanding Mahoning Valley Sanitary District Water Revenue Bond Anticipation Notes,
3. Funding a Debt Service Reserve Account
4. Reimbursing the District for certain engineering costs incurred in anticipation of issuing the water revenue bonds, and
5. Paying certain costs of issuance of the water revenue bonds.

The water revenue bonds are obligations of the District, and are payable from the revenues, and are secured by a pledge of and lien on the revenues in the Maintenance Fund.

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

4. DEBT (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

Year ending June 30:	General Obligation Bonds	Water Revenue Bonds
2001	\$ 1,722,569	\$ 2,622,023
2002	1,708,369	2,625,435
2003	1,728,369	2,624,629
2004	1,726,169	2,624,835
2005	1,722,569	2,625,640
Subsequent	<u>18,985,104</u>	<u>36,708,574</u>
Total	<u>\$ 27,593,149</u>	<u>\$ 49,831,136</u>

5. RETIREMENT SYSTEMS

All full-time employees of the District belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. The employees' contribution of 8.5% of their gross salaries was picked up by the District in accordance with the terms of a collective bargaining agreement for July 1, 1999 to June 30, 2000.

The District also contributed an amount equal to 13.55% of participants' gross salaries. The District has paid all contributions required through June 30, 2000.

6. RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Errors and omissions
- Builder's Risk Insurance

The District also provides health insurance and dental and vision coverage to full-time employees through a private carrier.

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

7. SPECIAL AUDIT

Auditor of State Jim Petro on August 7, 1997 issued a special audit for the period January 1, 1991 through April 30, 1996, detailing a comprehensive review of contracts and transactions at the Mahoning Valley Sanitary District. This special audit report contained \$2.7 million in findings for recovery for public money illegally or improperly spent, along with numerous citations and management recommendations. It also questions cash payments from vendors to former MVSD director, and extensive entertainment expenses from vendor on District officials and personnel.

The Ohio Attorney General on August 6, 1998 filed three civil lawsuits against two former directors at the MVSD and construction company in the first legal attempt to recover the money.

The majority of improper payments to vendors documented in the audit include:

- \$1.96 Million against the Gilbane Construction Company of Providence, R.I., for construction management service on capital improvements yet to be constructed.
- \$385,000 against Gilbane for payments it made to Mascaro, Inc., a Pittsburgh based consultant, for design services that cannot be documented as having been performed.
- \$141,983 against former director Edward Flask and Frank DeJute for unauthorized payments on medical and life insurance benefits, and public pension contributions.
- \$65,000 against attorney Holland E. Greene, co-counsel to the underwriter for MVSD's 1994 bond issuance, for services not commensurate with the payment received. Findings were also issued against MVSD bond underwriter McDonald & Co. Securities, Inc. which paid Greene, and her former employer Michael Morley, who ultimately received those funds.

The above findings also name Flask and DeJute as jointly liable because they approved the expenditures as MVSD directors. MVSD has recorded cash disbursements for construction contracts and management in the amount of \$5,704,788 and \$1,369,159 for fiscal year 1997; and \$1,857,787 and \$63,350 for fiscal year 1998 respectively, some of which has been questioned as public money illegally or improperly sent as part of the special audit. The findings direct the named individuals/companies to return these funds to the District. The resolution of these findings may have a material effect on the District and these financial statements.



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

Mahoning Valley Sanitary District
Trumbull County
1181 Ohltown McDonald Road
Mineral Ridge, Ohio 44440

To the Board of Directors:

We have audited the accompanying financial statements of the Mahoning Valley Sanitary District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2000 and have issued our report thereon dated November 28, 2000. As stated in this report, on August 7, 1997, the Auditor of State issued a special audit report on the District which included findings for recovery of \$2.7 million against current and former management of the District and certain vendors. The Ohio Attorney General and the United State Attorney General are currently investigating the findings of that 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.

Compliance

As part of obtaining reasonable assurance about whether the District'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*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated November 28, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 28, 2000.

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

Jim Petro
Auditor of State

November 28, 2000

**MAHONING VALLEY SANITARY DISTRICT
SCHEDULE OF FINDINGS
JUNE 30, 2000**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Full Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1997-61150-001	Revised Code 6115.65, payment to member of board of director exceeded amount fixed by statutes.	No	The Trumbull and Mahoning County Prosecutors have deferred this issue to the Ohio Attorney General's Office
1997-61150-002	No Audit Committee	No	



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MAHONING VALLEY SANITARY DISTRICT

TRUMBULL 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
JANUARY 11, 2001**