



Dave Yost • Auditor of State

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Mahoning Valley Sanitary District
Trumbull County
P.O. Box 4119
Youngstown, Ohio 44515

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Mahoning Valley Sanitary District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the business-type activities and each major fund, of the Mahoning Valley Sanitary District, Trumbull County, Ohio (the District), as of June 30, 2013, and the respective changes in cash financial position for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the District's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position, changes in net position and net cost of services. This information provides additional analysis and is not a required part of the basic financial statements.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2014, 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 grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

March 3, 2014

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The Mahoning Valley Sanitary District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Our Mission Statement

The Mahoning Valley Sanitary District and its employees are committed to preserving the public health and the natural environment while providing a safe and reliable supply of potable water. The employees of the Mahoning Valley Sanitary District are well trained in order to serve the Mahoning Valley Community in the most efficient, courteous way possible in providing quality service.

Our discussion and analysis of the Mahoning Valley Sanitary District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. The Mahoning Valley Sanitary District ("the District") was formed in 1926 and began supplying water in 1932. The District provides quality water to the member cities – the City of Youngstown and the City of Niles; and by special contract to the Village of McDonald. The members serve surrounding areas such as Girard, Canfield, Mineral Ridge, Lordstown and portions of 10 other townships.

The District is a political subdivision of the State of Ohio established under the authority of the Sanitary Act of Ohio and governed by the Ohio Revised Code Chapter 6115. The District is overseen by the Trumbull and Mahoning County Court of Common Pleas and a Board of Directors that are appointed by the member cities. The Sanitary District Act empowers the District to provide water supply, treatment, transmission feeder systems and storage reservoirs, but not distribution.

Meander Creek Reservoir is seven miles long, covers 2,010 acres with 40 miles of shoreline, and has a capacity of 11 billion gallons. District owned land includes 5,500 acres enclosed by 35 miles of fence. The land is reforested with 4 million evergreens and serves as an unofficial fish and game refuge – with no public access permitted!

The District's current capacity is 60 million gallons per day and the present use is about 24 million gallons per day. The District's water is treated and delivers pure, safe, clear, sparkling, soft, potable water to its member cities.



Photo No. 1 – Solid Contact Clarifiers

The Mahoning Valley Sanitary District

Management's Discussion and Analysis

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Financial Highlights

The District's net position increased mainly from a revenue stream that allowed for the collection of funds for sludge removal and for capital improvement projects funding which was authorized to begin at the beginning of the fiscal year. Funds earmarked for sludge removal will be used for that purpose when our lagoons are filled to the capacity that requires sludge removal maintenance. The District aggressively applies for grants that can be obtained through the Ohio Public Works Commission and the Appalachian Regional Commission. Our projects are rated against other submitted projects from Ohio entities and then a final determination is made that awards grant funds available. The District has been very successful in receiving grants from OPWC and the ARC, which is a positive for ongoing stable financial condition. Program revenues accounted for almost all revenues. General revenues were insubstantial to overall revenues. The District's funds all showed positive fund balances for the fiscal year.

- The District's Board of Directors consists of four members, two from the City of Youngstown and two from the City of Niles. Rufus G. Hudson served as President of the Board for the majority of fiscal year 2013. Mr. Hudson is a Youngstown City Council appointment. Other Board members include; Matthew J. Blair, Esq., City of Niles mayoral appointment; James V. Sylvester, Niles City Council appointment; Presley L. Gillespie, City of Youngstown mayoral appointment.
- The Board annually advertises for bids on chemicals that are needed in the purification process. The District will continue to have concerns with costs for the purification process as the high cost for energy drives the overall cost for chemicals. The volatility of prices for chemicals as well as our other variable costs such as electricity, natural gas heat and sludge removal will continue to remain an area of concern for District management. With the recent explosion in shale gas discovery, natural gas prices have decreased. Whether the future holds lower natural gas costs remains to be seen. Budgeting for energy costs will continue to present problems for certainty. The constantly changing conditions of the Meander Reservoir have always contributed to some uncertainty regarding the needs of treatment. The types and volume of chemicals needed to produce potable water each and every year requires much analysis and a good bit of luck. The District receives royalties from two gas wells that are located on District property. These wells were put on District property in the 1970's. No other wells have been drilled on District property since that time. Surrounding the District's property are many gas wells, some of which contribute to royalties that are received by the District. District revenues from royalties have remained fairly constant over the last five years but total gross receipts for gas royalties have lessened since a high of five or more years ago.
- In fiscal year 2013, the District's Board of Directors awarded a major capital improvements contract to a local electrical firm and local design firm. This project is to design and build a SCADA system and improve all instrumentation relating to the same. The total project estimate is \$3,654,000. The District applied for and received a loan to achieve the design objectives at a cost of \$624,000. The above project has been estimated to be completed by December 31, 2014. Throughout the fiscal year the District will prioritize major maintenance type projects that can be accomplished with budgeted funds or projects that can be done by appropriating funds from current unrestricted funds. The following are such projects that were deemed necessary and then were properly funded by Board Resolution and Appropriation; Sludge Lagoon E sludge removal project, \$345,211; HVAC upgrades to District plant Chemical Building, \$280,234; the District's south entrance gate security enhancement, \$195,600; Roof improvements to plant building #4, \$243,660. The District improved its fleet with the purchase of two vehicles; one is a truck for general maintenance use and the other vehicle to be used by the District's sample collector. Another internally funded project was the improvement to the District's telephone system. The upgrade included a new NEC digital telephone switch, selected locations for new and improved telephones and

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specific project software. Additionally, the District nearly completed within the fiscal year a project that received partial funding from the OPWC in the amount of \$241,255. This project, the Sludge Line Replacement Phase I project, required an investment by the District of \$122,390 to complete the total funding required of \$349,645.

- The District's Board of Directors did hire one new employee during fiscal year 2013. This person was placed in the purification department as an Operator Trainee. The Board's overall hiring policy is to maintain proper staffing levels so that maintenance and service is maintained throughout our operations.
- In December 2012, the Chief Engineer elected to retire at month end. The Board had been aware of this impending retirement and proceeded with due diligence to find a qualified replacement. This attempt was not productive. The Board elected to rehire the current Chief Engineer, following all necessary protocols, for a one year term, terminating on December 31, 2013.
- In May of this fiscal year the District began negotiations with AFSCME Local 1649. The District was represented in negotiations by the District legal counsel, the Chief Engineer and Secretary-Treasurer. The outcome of these negotiations was a three year contract beginning July 1, 2013 and running through June 30, 2016.
- In May of 2013 the Board of Directors passed Resolution 6003 to adopt Amendment No. 6 of the Official Plan and in conjunction passed Resolution No. 6004 which determined rates of compensation for the water furnished by the District to the Cities of Youngstown and Niles and the Village of McDonald for the period of July 1, 2013 to June 30, 2016, inclusive. The Board went before the District's Court of Jurisdiction on June 22, 2013 for hearing upon motion by the District for determination of the rate of compensation to be paid to the District for the sale of water to its member cities, Youngstown, Niles and the Village of McDonald and a program of improvement designated as Amendment No. 6. It was ordered, adjudged, and decreed that the rates for sale of water reflected in Schedule A are reasonable, necessary and adequate to meet the District's current needs.



Photo No. 2. – Aerial Image of the Meander Reservoir

The future marketing plans of the District with regard to promoting widespread use of our product in areas who have not had the opportunity for access to our product are ongoing. An agreement with Aqua Ohio that provides for delivery of MVSD water through its member city Youngstown has not been completed as of yet. The efforts are ongoing. Our Board is also exploring ways to benefit the District's and our member cities overall water distribution by investigating all avenues open to them to participate in the developing shale gas explorations and development. Though there is interest on the District's part to possibly participate in some

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way in the shale gas exploration boom by providing water to companies that need water in their drilling operations there has not been any significant progress in that regard. There have been respectful anti-fracking individuals that have asked to speak to the District's board at their monthly meeting and have the opportunity to make their concerns known. It has been the opinion of the Board with regard to drilling of gas wells using the technology commonly referred to as "fracking" that no such drilling will be allowed on reservoir property. This issue may become a more prominent one in future years.

Using the Basic Financial Statements

These financial statements are presented in a format consistent with the presentation requirements of GASB Statement No. 34, as applicable, with the Mahoning Valley Sanitary District's cash basis of accounting presentation.

This cash basis financial annual report consists of financial statements and notes to those statements. The statements are organized so the reader can understand the Mahoning Valley Sanitary District as a whole and the notes to the statements are integral to the overall understanding of the financial operations of the District.

Basis of Accounting

The District is presenting its financial statements on a cash basis of accounting. This basis does not report GAAP as the District records receipts and disbursements when cash is received and paid. Charges for services program revenues are for the sale of water to our member cities which represents the majority of all revenues; the reader should be advised that though the revenues presented in these statements represent twelve months of program revenues, the current fiscal year's program revenues includes the collection of one month's program revenue from the previous fiscal year, a feature of the cash basis of accounting. Certain expenses that remained unpaid at fiscal year-end would not be reported under this basis of accounting and such could be viewed as a shortcoming or a limitation in the cash basis of financial reporting. However, it should be noted that the District uses a fund accounting software that provides for fund cash encumbrances that have been established by a valid purchase order. These encumbrances reflect expense from the previous fiscal year, though cash has not been expended at fiscal year-end. The end users familiar with fund accounting financial statements should recognize expense not yet paid at year end as encumbrances as they are not identified as accounts payable.

Reporting the Mahoning Valley Sanitary District as a Whole

The Statement of Net Position and the Statement of Activities suggest how the District did financially during fiscal year 2013 as there are limitations in reporting as mentioned earlier with the cash basis of accounting. Some funds are required to be established by State statute, while many other funds or sub-account funds are established by the District to help manage money for particular purposes and compliance with a grant provision. The Ohio Revised Code Section 6115 sets the Districts' funds at two: the Maintenance fund and the Bond fund. These statements reflect an additional fund identified as the Bond Retirement fund to provide additional information in the form of a sub-account fund. The District's two types of funds and the District's sub-account funds all use the cash basis of accounting approach and are cumulatively reported in these statements using the Cash Basis of accounting which measures cash and other financial assets that can be readily turned into cash. Net position may serve over time as a useful indicator of a government's financial position. Net position of the District increased as a result of funds collected in the year for debt service on projects approved but not yet completed. Our current projects receive financing from OEPA and OWDA loans, the water rates we assess our member cities must reflect funds sufficient to pay debt service prior to

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receiving a loan. This fact increases our fund balance for a least part of a fiscal year. Related to this fact, the project end dates are estimated. Construction completion dates have lagged behind the original estimated completion dates and requests by District have extended out the beginning of the loan payback. This is another feature that increases our overall fund balance. The District used currently collected sludge funds of this fiscal year for the sludge removal project mentioned earlier in this discussion. Also, to a lesser extent, is the fact that several fairly common situations existed during the fiscal year when budgeted amounts for salaries and benefits were not expended because of employee situations that resulted in unpaid leave. There was one disability retirement in the early months of the fiscal year and that employee was not replaced which contributed to lower payroll expense. Certain employees of the District began paying the entire 10 percent OPERS employee retirement contribution which translated into OPERS expense savings throughout the fiscal year. The District, in the last year of its three year water rate schedule (Schedule A) implemented an 11.8 percent increase in its revenue stream for fiscal year 2013 which was approved by the Court of Jurisdiction on April 15, 2011. This request before the Court of jurisdiction was for approval for a revenue stream adjustment that included funding for new capital improvement projects planned and approved as well as necessary increases in operations funding. The increases to our Schedule A rate provisions went into effect on July 1, 2011 and expired on June 30, 2013. The District prepares for Court of Jurisdiction rate hearings by providing to our member cities and to the Court of Jurisdiction our Capital Improvement and Operating Five year plan to determine the best course of action for maintaining the District's facilities, maintaining reasonable fund balances, and determining the level of debt that will be appropriate in light of the local/worldwide financial climate. The District has met with much success with our member cities and the information provided is detailed but also includes several meetings with presentations that provide our member cities with the kind of information and detail that allows for informed decisions regarding the revenue streams desired by the District.

Table 1 provides a summary of the District's net position for fiscal year 2013 compared to 2012 on a cash basis:

(Table 1)
Net Position

	Business-Type Activities		
	2013	2012	Change
Assets			
Equity in Pooled Cash and Cash Equivalents	\$31,497,194	\$27,345,666	\$4,151,528
Net Position			
Restricted for:			
Debt Service	\$5,101,185	\$5,076,152	\$25,033
Other Purposes	1,377,457	1,377,147	310
Unrestricted	25,018,552	20,892,367	4,126,185
Total Net Position	\$31,497,194	\$27,345,666	\$4,151,528

A portion of the District's net position represents resources subject to external restrictions on how they may be used. The remaining balance of the unrestricted net position may be used to meet the District's ongoing activities.

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Table 2 shows the changes in net position for fiscal year 2013 compared to 2012.

(Table 2)
Changes in Net Position
 Business-Type Activities

	2013	2012	Change
Program Revenues			
Charges for Services and Assessments	\$18,559,627	\$16,741,047	\$1,818,580
Capital Grants and Loan Proceeds	8,190,141	14,166,258	(5,976,117)
<i>Total Program Revenues</i>	<u>26,749,768</u>	<u>30,907,305</u>	<u>(4,157,537)</u>
General Revenues			
Investment Earnings	3,135	8,730	(5,595)
Miscellaneous	9,242	8,522	720
<i>Total General Revenues</i>	<u>12,377</u>	<u>17,252</u>	<u>(4,875)</u>
<i>Total Revenues</i>	<u>26,762,145</u>	<u>30,924,557</u>	<u>(4,162,412)</u>
Program Expenses			
Operating Expense	7,031,080	6,487,334	(543,746)
Construction of Facilities/Equipment	9,294,779	14,970,060	5,675,281
Capital Charge	67,812	65,500	(2,312)
Bond Retirement	4,323,625	2,398,425	(1,925,200)
OWDA Loan Retirement	1,893,321	1,009,848	(883,473)
<i>Total Program Expenses</i>	<u>22,610,617</u>	<u>24,931,167</u>	<u>2,320,550</u>
<i>Change in Net Position</i>	4,151,528	5,993,390	(1,841,862)
<i>Net Position Beginning of Year</i>	<u>27,345,666</u>	<u>21,352,276</u>	<u>5,993,390</u>
<i>Net Position End of Year</i>	<u>\$31,497,194</u>	<u>\$27,345,666</u>	<u>\$4,151,528</u>

Program revenues represent the vast majority of total receipts and are primarily user charges and assessments for services provided. Charges for services revenue increased in fiscal year 2013 due to an increase in user rates that went into effect on July 1, 2012. Capital grants and loan proceeds decreased due to projects nearing the end of construction; meaning most of the expenditures requiring the use of loan proceeds have been made in previous fiscal years and projects funded partially by OPWC and ARC grants were smaller and less costly resulting in lesser amounts of grant proceeds. One grant funded project in excess of \$240,000 was not started until late in the fiscal year and no requests could be made for grant funds until appropriate.

General revenues represent the remaining portion of the total receipts primarily made up of investment earnings.

Disbursements for operating expenses represent the costs of running the District. The construction of facilities/equipment disbursements represents costs incurred in the purchase and building of capital assets. The bond retirement disbursements represent costs for the retirement of bond debt. The OWDA loan retirement disbursements represent costs for the retirement of OWDA loans.

The Mahoning Valley Sanitary District

Management's Discussion and Analysis

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The Board of Directors since 2004 seeks additional operating and capital improvement funds that are defined by the needs of the District and then detailed in our five year Operating and Capital Improvement Plan. The District's Board must act in accordance with the provisions of the ORC Section 6115 to affect a change in the water rates that increase operational and capital improvement funding. This process includes the input from the District's member cities, Youngstown, Niles and the Village of McDonald as the Court of Jurisdiction which is the Common Pleas Courts of Mahoning and Trumbull look for consensus regarding the need for additional operating and capital funds that the Board of Directors have determined as necessary to maintain the District's operation. As mentioned above the District utilizes a five-year cash financial forecast to estimate revenues and control expenditures to assure water revenues can maintain operations for a significant period of time. Current negotiations with our member cities has established that a three year rate schedule provides for the District's needs and allows the Cities to budget properly as well. Our current five year plan does reflect a need for additional operating resources and projections for funding needed to complete capital improvement projects that have been planned and presented to the member cities and to the Ohio EPA in the form of the District's Amendment No. 5. The District has amended the Official Plan in fiscal year 2013 to include Amendment No. 6. The revenue stream adjustments that would be necessary based upon the newly Revised Official Plan and the current five year financial plan were presented to the cities in Resolution form in May 2013. The District proceeded in the process by authorizing our legal counsel to petition the Court of Jurisdiction for a rate hearing. A careful priority of needs was established that culminated in a new three year rate schedule that did not raise our revenue stream in fiscal year 2014. The Judgment Entry of June 17, 2013 established the rates for the sale of water to our member cities which will be in effect for three years and expire on June 30, 2016. The new Schedule A rate that provides the formula for determining water revenue each month is now in place to meet all proposed, planned and engineered capital improvement projects approved by the Board of Directors with Amendment No. 6 that have been presented to our member cities. The current rate schedule will remain in effect until a new rate schedule A is proposed to the member cities and then approved by the Court of Jurisdiction.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities. Water revenues including investment earnings must support the net cost of program services.

(Table 3)

	Business-Type	
	Total Cost	Net Cost
	Of Services	of Services
	2013	2013
Operating Expense	\$7,031,080	\$409,273
Construction of Facilities/Equipment	9,294,779	3,729,878
Capital Charge	67,812	0
Bond Retirement	4,323,625	0
OWDA Loan Retirement	1,893,321	0
Total Expenses	<u>\$22,610,617</u>	<u>\$4,139,151</u>

As mentioned earlier, the District utilizes the five-year forecast as the original document from which to form succeeding year's operating and debt budget. After updating the forecast for changes in revenue and expenditure assumptions, department heads will operate from the established budget which is prepared and approved by the Board of Directors prior to July 1 of each fiscal year. The line item budgets are reviewed periodically to ensure management becomes aware of any significant changes during the fiscal year.

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Management's Discussion and Analysis
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Capital Assets

The District maintains a listing of its capital assets. These records are not required to be presented in the financial statements.

Debt

At June 30, 2013 the District had \$20,775,000 in outstanding bonds payable and \$31,260,655 in outstanding OWDA loans payable. The District paid \$3,730,000 in principal on bonds and \$1,136,151 in principal on OWDA loans outstanding during the fiscal year. The District has loan agreements with the Ohio Water Development Authority/Environmental Protection Agency for various projects including improvements to the filtration system, the Niles Standpipe Replacement Project, the Head House Roof Project (Chemical Feed Building), the Administration and Filter Building Roof Replacement Project, the Water Treatment Plant Lagoon Maintenance Project, the Valve Replacement/Gate House Project, two loans involving the Solids Clarifier and Recarbonation Project, the Phase II Valve/Pipeline Replacement Project, the Chemical Feed Improvements Design Project and the Berlin Pump Station Improvements Design Project. In fiscal year 2013, the District entered into an additional loan agreement with the Ohio Water Development Authority/Environmental Protection Agency for a project relating to SCADA/Instrumentation Improvements for a total amount of \$626,200. This amount represents the loan amounts encumbered for loan fees and contract services. This loan as well as the two loans for the Solids Clarifier and Recarbonation Project, the Phase II Valve/Pipeline Replacement Project loan, the Chemical Feed Improvements Design Project loan and the Berlin Pump Station Improvements Design Project loan have not been finalized and therefore the repayment schedules for these loans are not included in the schedule of debt service payments as of June 30, 2013.

Current Financial Related Activities

The District, by utilizing the process for increasing water rates on bulk water supplied to the member cities, is in good financial position at June 30, 2013. The District has, over the last ten (10) years, had to be aggressive in its capital improvement projects. Our facility was built 87 years ago and consequently the Board and management must either prepare plans for its improvement and maintenance or face monumental problems in the future in its efforts to maintain the product delivered to Mahoning Valley residents. Therefore, it is imperative that the Mahoning Valley's most important resource and its delivery system be maintained for the benefits of all residents. However, the future financial stability of the District will be challenged based on our area's economic health. Currently, our area is experiencing an explosion in the shale gas exploration and drilling. This looks to be a long term change for the valley of which benefits to the whole of the Mahoning Valley remains quite uncertain. Some area residents are finding employment in this industry but experienced crews that do the actual drilling are brought into the area and do not become permanent residents. So, unfortunately, it does not mean our overall population is increasing because of the oil and gas exploration industry. The long term positive economic effects for area residents not directly involved because of property ownership or part of a specific drilling area to benefit with royalty checks has not been clearly defined in terms of overall economic growth (jobs) for our area.

The District has major and ongoing expense to its water purification plant built in 1926. Rehabilitation or the replacement of obsolete infrastructure vital to the purification of water is a major challenge for management to ensure infrastructure can be preserved as long as possible without affecting our finished product. The District's current Board and management look to implementing new/cutting edge technology in every area of the operation that is economically cost effective and efficient. Our current Amendment No. 5 and

The Mahoning Valley Sanitary District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

Unaudited

Amendment No. 6 incorporate some of the latest and best water treatment technology now available and used in the water industry as well as providing complete overhaul of existing equipment (refurbishing) rather than purchasing new. Decisions relating to purchasing new or refurbishing included in-depth analysis by engineering and manufacturing firms well equipped to make those decisions. The five-year forecast which incorporates a capital plan for the same period of time is utilized by management as a tool to manage the District's infrastructure resources effectively. This five-year forecast tool is used by the District to engage our member cities in ongoing meaningful dialogue during the fiscal year to keep the cities' technical and political personnel informed of all operating and capital expenditure changes as they can be estimated and/or foreseen to be a major change to our budget. This free exchange of technical and operating information between the District and its member cities has proven to be very beneficial to all entities as evidenced by the new rate schedule that went into effect on July 1, 2013 which included a full year of no increase to the District's water revenue stream; the open and transparent plans established by the District and shared regularly with our member cities benefits our entity, the cities, and all of the water users in the Meander Water distribution area. We are always looking at our five year forecasting plan to edit and revisit the plan and if changes are needed or anticipated, meetings are set up to present our findings to the appropriate officials of our member cities. The new five year plan's core premise that was approved by our Board of Directors and the cities and our Court of Jurisdiction is manifested into a new 3 year Schedule A revenue stream that went into effect on July 1, 2013.

As stated earlier in this discussion the major business thrust in our area and possibly the whole country is oil and gas exploration. We hear no concrete projections for how much positive impact this business will have on our whole community. The District's mission remains the same; preserve the public health and the natural environment while providing a safe and reliable supply of potable water. The District continues with the opinion that the nation's infrastructure deficiencies are a grave concern. More federal funds should be made available for infrastructure rebuilding; water, sewer and bridges. Spending in these areas would help substantially to begin the economic recovery everyone is hoping for in our area and around our country.

The District's position remains the same regarding funding through Issue II funds. As this entity has previously stated, the Mahoning Valley Sanitary District is a significantly important organization in our area. The District, along with other entities, compete for Issue II funds to help with infrastructure capital improvements. Depending on the importance of the projects and available matching funds, the grants are distributed to entities whose projects top the list according to established parameters. The District will continue to seek Issue II funding. These funds when received help the District to accomplish some form of capital improvement, or maintenance issue that will not directly affect our water rates for bulk water delivery. It is important that these funds obtained from the State for the purpose of financing or assisting in the financing of the costs of public infrastructure capital improvements for local subdivisions such as the District remain available on a yearly basis. The District had three ongoing projects in fiscal 2013 funded in this way and one application of a project that will be funded in fiscal 2014. OPWC grant funding is very important and has been a successful auxiliary financing option employed by management for this entity which in conjunction with our established, detailed financial forecast tool that provides complete transparency of our financial operations and as a result these tools help us provide the essential revenue stream that allows are entity to accomplish our objectives and completely our purpose.

Contacting the District's Finance Department

This report is designed to provide the reader with a broad overview of the District's financial position, as well as a general understanding of the financial operations of the District. If you have any questions about this report or need any additional financial information, please contact Alan Tatalovich, Secretary/Treasurer, Mahoning Valley Sanitary District, P.O. Box 4119, Youngstown, OH 44515, telephone 330-652-3614.

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The Mahoning Valley Sanitary District

Statement of Net Position - Cash Basis

June 30, 2013

	<u>Business-Type Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$31,497,194</u>
Net Position	
Restricted for:	
Debt Service	\$5,101,185
Other Purposes	1,377,457
Unrestricted	<u>25,018,552</u>
<i>Total Net Position</i>	<u>\$31,497,194</u>

See accompanying notes to the basic financial statements

The Mahoning Valley Sanitary District

Statement of Activities - Cash Basis

For the Fiscal Year Ended June 30, 2013

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Assessments	Capital Grants and Loans	Business-Type Activities
Business-Type Activities				
Operating Expense	\$7,031,080	\$7,440,353	\$0	\$409,273
Construction of Facilities/Equipment	9,294,779	4,834,516	8,190,141	3,729,878
Capital Charge	67,812	67,812	0	0
Bond Retirement	4,323,625	4,323,625	0	0
OWDA Loan Retirement	1,893,321	1,893,321	0	0
<i>Total</i>	<u>\$22,610,617</u>	<u>\$18,559,627</u>	<u>\$8,190,141</u>	<u>4,139,151</u>
General Receipts				
Investment Earnings				3,135
Miscellaneous				9,242
<i>Total General Receipts</i>				<u>12,377</u>
Change in Net Position				4,151,528
<i>Net Position Beginning of Year</i>				<u>27,345,666</u>
<i>Net Position End of Year</i>				<u>\$31,497,194</u>

See accompanying notes to the basic financial statements

The Mahoning Valley Sanitary District
Statement of Fund Net Position - Cash Basis
Enterprise Funds
June 30, 2013

	<u>Maintenance Fund</u>	<u>Bond Fund</u>	<u>Bond Retirement Fund</u>	<u>Total</u>
Current Assets				
Equity in Pooled Cash and Cash Equivalents	<u>\$1,457,437</u>	<u>\$22,150,752</u>	<u>\$7,889,005</u>	<u>\$31,497,194</u>
Net Position				
Restricted for:				
Debt Service	\$0	\$113,271	\$4,987,914	\$5,101,185
Other Purposes	1,377,457	0	0	1,377,457
Unrestricted	<u>79,980</u>	<u>22,037,481</u>	<u>2,901,091</u>	<u>25,018,552</u>
<i>Total Net Position</i>	<u>\$1,457,437</u>	<u>\$22,150,752</u>	<u>\$7,889,005</u>	<u>\$31,497,194</u>

See accompanying notes to the basic financial statements

The Mahoning Valley Sanitary District
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Position - Cash Basis
Enterprise Funds
For the Fiscal Year Ended June 30, 2013*

	Maintenance Fund	Bond Fund	Bond Retirement Fund	Total
Operating Receipts				
Charges for Services	\$7,440,353	\$9,256,269	\$0	\$16,696,622
Special Assessments	0	1,731,962	0	1,731,962
Royalties	0	63,231	0	63,231
Miscellaneous	0	6,702	0	6,702
<i>Total Operating Receipts</i>	<u>7,440,353</u>	<u>11,058,164</u>	<u>0</u>	<u>18,498,517</u>
Operating Disbursements				
Personal Services	4,133,826	0	0	4,133,826
Supplies and Services	2,897,254	0	0	2,897,254
<i>Total Operating Disbursements</i>	<u>7,031,080</u>	<u>0</u>	<u>0</u>	<u>7,031,080</u>
<i>Operating Income</i>	<u>409,273</u>	<u>11,058,164</u>	<u>0</u>	<u>11,467,437</u>
Non-Operating Receipts (Disbursements)				
Miscellaneous - Non Operating Revenue	0	2,540	0	2,540
Miscellaneous - Non Operating Expense	(23,988)	(3,550)	0	(27,538)
Equipment - Non Operating Expense	(317,294)	0	0	(317,294)
Capital Outlay - Non Operating Expense	0	(1,104,465)	0	(1,104,465)
Capital Charge - Non Operating Revenue	0	67,812	0	67,812
Capital Charge - Non Operating Expense	(67,812)	0	0	(67,812)
Capital Grants	0	344,659	0	344,659
Redemption of Principal	0	(1,136,151)	(3,730,000)	(4,866,151)
Interest and Fiscal Charges	0	(757,170)	(593,625)	(1,350,795)
Proceeds of EPA/OWDA Loan	0	7,845,482	0	7,845,482
EPA/OWDA Funds Disbursed	0	(7,845,482)	0	(7,845,482)
Investment Earnings	344	1,040	1,751	3,135
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(408,750)</u>	<u>(2,585,285)</u>	<u>(4,321,874)</u>	<u>(7,315,909)</u>
<i>Income (Loss) before Transfers</i>	523	8,472,879	(4,321,874)	4,151,528
Transfers In	0	0	4,347,583	4,347,583
Transfers Out	0	(4,347,583)	0	(4,347,583)
<i>Change in Net Position</i>	523	4,125,296	25,709	4,151,528
<i>Net Position Beginning of Year</i>	<u>1,456,914</u>	<u>18,025,456</u>	<u>7,863,296</u>	<u>27,345,666</u>
<i>Net Position End of Year</i>	<u>\$1,457,437</u>	<u>\$22,150,752</u>	<u>\$7,889,005</u>	<u>\$31,497,194</u>

See accompanying notes to the basic financial statements

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Note 1 - Reporting Entity

The Mahoning Valley Sanitary District, Trumbull County (the District), is a political subdivision of the State of Ohio 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 positions of Secretary and Treasurer were combined on January 15, 1997. The Secretary/Treasurer is the fiscal officer of the District as well as 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.

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2 (Basis of Accounting), these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

Basis of Presentation

The District's basic financial statements consist of a government-wide statement of net position and a statement of activities and fund financial statements providing a more detailed level of financial information.

Government-wide Financial Statements The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements are considered business-type for the District.

The government-wide statement of net position presents the cash balance of the business-type activities of the District at fiscal year end. The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment is self-financing on a cash basis or draws from the District's general receipts.

Fund Financial Statements During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of enterprise fund financial statements is on major funds. Each major fund is presented in a separate column.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

Fund Accounting

The District uses funds 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. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions of the District are financed. The District does not have governmental funds.

Proprietary Funds The District classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise or internal service. The District has no internal service funds. The following are descriptions of the District's enterprise funds.

Maintenance Fund This fund is required by Ohio Revised Code Section 6115.45. 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 District.

Bond Fund The bond fund is required by Section 6115.45, Ohio Revised Code. The bond fund consists of proceeds of levies made against the special assessments of benefits equalized and confirmed under Section 6115.01 to 6115.79, inclusive, of the Ohio Revised Code. This fund is also used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment. This fund also receives all operating revenue due from the member Cities of Youngstown and Niles and from the Village of McDonald based on an approved water rate schedule. A percentage of the proceeds are transferred to the Maintenance Fund for operating expenses for the District. A percentage of the proceeds are also transferred to the bond retirement fund for debt service payments.

Bond Retirement Fund The bond retirement fund is required by various bond covenants. It is used to account for accumulation of resources and for the payment of principal, interest and related costs.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District does not have a fiduciary fund type.

Basis of Accounting

The District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the District are described in the appropriate section in the note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2013, investments were limited to Treasury Money Market accounts. The District values investments and cash equivalents at cost. For presentation on the financial statements, the District classifies investments of the cash management pool as cash equivalents.

Inventory

On the cash-basis of accounting, inventories of supplies are reported as disbursements when purchased. These items are not reflected as assets in the accompanying financial statements.

Capital Assets

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

Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Deferred Charge on Refunding

The difference between the reacquisition price (funds required to refund the old debt) of various refunding bonds and the net carrying amount of the old debt, the deferred amount (loss) on refunding, is being amortized. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt whichever is shorter, using the effective interest method.

Bond Premiums

Bond premiums are deferred and amortized over the term of the bonds using the straight line method. The straight-line method of amortization is not materially different from the effective-interest method. Bond premiums are presented as an increase of the face amount of the general obligation bonds.

Long-term Obligations

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal and interest payments are reported when paid.

Net Position

Net position represents the difference between all other elements in a statement of financial position. The statements report restricted net position when creditors, grantors or laws, or regulations of other governments have imposed limitations on their use. Net position restricted for other purposes include resources restricted for operation and maintenance.

The District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

Interfund Activity

Transfers between business-type activities are eliminated on the government wide financial statements. The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Proprietary funds report transfers after nonoperating receipts and disbursements. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

Budgetary Process

The Ohio Revised Code requires that the maintenance fund be budgeted annually. The Mahoning Valley Sanitary District prepares a budget for the maintenance fund and the bond fund.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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. Appropriation authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board of Directors must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

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

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 re-appropriated.

Note 3 – Change in Accounting Principle

For fiscal year 2013, the District has implemented Governmental Accounting Standard Board (GASB) Statement No. 61, “The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34, Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements” and Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units’ presentation and certain disclosure requirements. These changes were incorporated in the District’s fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 62 incorporates into GASB’s authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the District’s financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the District’s fiscal year 2013 financial statements; however, there was no effect on beginning net position.

Note 4 - Deposits and Investments

Monies held by the District are classified by State statute into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the District Treasury. Active monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Directors has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$26,120,497 of the District's bank balance of \$26,620,497 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2013, the District had an investment in Treasury Money Market accounts with a carrying and fair value of \$4,987,914 and a maturity of less than one year. All investments are in an internal investment pool.

Interest Rate Risk. As a means of limiting its exposure to fair value losses caused by rising interest rates, the District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Concentration of Credit Risk. The District places no limit on the amount it may invest in any one issuer.

Note 5 - Contingencies

Grants

The District receives financial assistance from state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District's operating fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2013.

Litigation

The District is not party to any legal proceedings at June 30, 2013.

Note 6 - Risk Management

The District is exposed to various risks of loss to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disaster. During fiscal year 2013, the District contracted with Love Insurance for various types of insurance coverage as follows:

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Type	Coverage	Deductible
Property/Inland Marine	\$154,500,000	\$10,000
Earthquake	1,000,000	50,000
Flood	1,000,000	50,000
Liability	6,000,000/8,000,000	1,000/2,500
Fleet Vehicle		
Physical Damage	50,000	500
Comprehensive		250

Settled claims have not exceeded this coverage in any of the last three years. There has not been significant reduction in coverage from the prior year.

Healthcare is provided through Anthem with single coverage of \$654.79 per month, husband and wife coverage of \$1,439.23 per month, and full family coverage of \$2,021.33 per month.

Workers' compensation is provided by the State. The District 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 7 - Defined Benefit Pension Plans

Plan Description – The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for local government employers. For the fiscal year ended June 30, 2013, the members of all three plans were required to contribute 10.0 percent of their annual salaries.

The District's contribution rate for fiscal year 2013 was 14.0 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Mahoning Valley Sanitary District

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

The District's required contributions for pension obligations to the Traditional Pension and Combined Plans for the fiscal years ended June 30, 2013, 2012 and 2011 were \$309,701, \$251,939 and \$227,905, respectively; 84.66 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. There were no contributions to the member-directed plan for 2013.

Note 8 – Postemployment Benefits

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In fiscal year 2013, local government employers contributed at a rate of 14.0 percent of covered payroll.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For July through December 2012, the portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

The District's contributions allocated to fund post-employment health care benefits for the fiscal years ended June 30, 2013, 2012 and 2011 were \$67,326, \$100,776 and \$126,614, respectively; 84.66 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Note 9 – Interfund Transfers

During fiscal year 2013, the bond fund transferred \$4,347,583 to the bond retirement fund to provide money for debt service payments.

Note 10 - Long-Term Obligations

Original issue amounts and interest rates of the District's debt issues were as follows:

Debt Issue	Interest Rate	Original Issue	Year of Maturity
Business-Type Activities			
<i>Water Revenue Bonds</i>			
Series 2010, Refunding	2.0 - 3.0%	\$27,030,000	2019
<i>EPA/OWDA Loans</i>			
Filter System Improvement	3.35%	7,105,074	2026
Niles Standpipe Replacement	3.25%	1,298,746	2027
Chemical Feed Building Roof	3.25%	1,609,624	2027
Administration and Filter Building Roof	4.47%	302,790	2028
WTP Lagoon Maintenance	3.36%	1,595,250	2018
Valve Replacement/Gate House	0.00%	2,488,513	2031
Solids Contact Clarifier/Recarbonation	3.99%	14,528,700	2033
Solid Clarifiers/Recarbonation	2.00%	8,000,000	2033
Phase II Valve/Pipeline Replacement	3.82%	566,754	2019
Chemical Feed Improvements Design	3.20%	499,032	2018
Berlin Pump Station Improvements Design	2.00%	564,598	2018
SCADA/Instrumentation Improvements	2.94%	626,200	2036

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

The changes in long-term obligations during the year were as follows:

	Balance 06/30/12	Additions	Reductions	Balance 06/30/13	Amounts Due in One Year
Business-Type Activities					
<i>Water Revenue Bonds</i>					
Series 2010, Refunding	\$24,505,000	\$0	(\$3,730,000)	\$20,775,000	\$3,785,000
Premium	188,866	0	(29,433)	159,433	0
Accounting Loss	(409,574)	0	63,830	(345,744)	0
<i>Total Revenue Bonds</i>	<u>24,284,292</u>	<u>0</u>	<u>(3,695,603)</u>	<u>20,588,689</u>	<u>3,785,000</u>
<i>EPA/OWDA Loans</i>					
Filter System Improvement	5,289,792	0	(315,728)	4,974,064	326,394
Niles Standpipe Replacement	1,047,887	0	(55,209)	992,678	57,018
Chemical Feed Building Roof	1,298,718	0	(68,424)	1,230,294	70,666
Administration and Filter Building Roof	255,889	0	(11,752)	244,137	12,283
WTP Lagoon Maintenance	1,020,088	0	(156,173)	863,915	161,464
Valve Replacement/Gate House	2,301,875	0	(124,426)	2,177,449	124,425
Solids Contact Clarifier/Recarbonation	5,085,375	7,220,730	(240,794)	12,065,311	0
Solid Clarifiers/Recarbonation	7,970,213	122,973	(163,645)	7,929,541	0
Phase II Valve/Pipeline Replacement	1,977	112,210	0	114,187	0
Chemical Feed Improvements Design	18,408	302,436	0	320,844	0
Berlin Pump Station Improvements Design	7,492	338,543	0	346,035	0
SCADA/Instrumentation Improvements	0	2,200	0	2,200	0
<i>Total EPA/OWDA Loans</i>	<u>24,297,714</u>	<u>8,099,092</u>	<u>(1,136,151)</u>	<u>31,260,655</u>	<u>752,250</u>
Total Business-Type Activities	<u>\$48,582,006</u>	<u>\$8,099,092</u>	<u>(\$4,831,754)</u>	<u>\$51,849,344</u>	<u>\$4,537,250</u>

In July 2010, the District issued the Series 2010 Water Revenue Refunding Bonds in the amount of \$27,030,000. These bonds were issued for the purpose of currently refunding the outstanding principal amount of the Series 1998 Refunding Bonds and the Series 1999 Refunding Bonds. The bonds were issued for a nine year period with a final maturity at December 1, 2018. The portion of these bonds relating to the Series 1998 bonds are paid from special assessments collected from the cities of Youngstown and Niles. The portion of these bonds relating to the Series 1999 bonds are paid from gross revenues of the water system after provisions for operating and maintenance expenses. The structuring of the Series 2010 bonds allows for a portion of the special assessments to cash fund capital improvement projects in the near future in lieu of obligating the District with new loans. The flow of funds is set by the trust agreements and the District must follow the restrictive financial covenants to remain in compliance with the bond indenture.

In fiscal year 2005, the District was approved for a \$7,105,074 Ohio Water Development Authority loan for improvements to the filtration system. This loan was issued for a twenty year period with a final maturity in fiscal year 2026.

In fiscal year 2007, the District was approved for a \$1,298,746 Ohio Water Development Authority loan for the replacement of the Niles Standpipe. This loan was issued for a twenty year period with a final maturity in fiscal year 2027.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

In fiscal year 2006, the District was approved for a \$1,609,624 Ohio Water Development Authority loan for the replacement of the Chemical Feed roof. This loan was issued for a twenty year period with a final maturity in fiscal year 2027.

In fiscal year 2008, the District was approved for a \$302,790 Ohio Water Development Authority loan for the replacement of the Administration and Filter Building roof. This loan was issued for a twenty year period with a final maturity in fiscal year 2028.

In fiscal year 2008, the District was approved for a \$1,595,250 Ohio Water Development Authority loan for the Water Treatment Plant Lagoon Maintenance project. This loan was issued for a ten year period with a final maturity in fiscal year 2018.

In fiscal year 2010, the District was approved for a \$2,488,513 Ohio Water Development Authority loan for the Valve Replacement/Gate House project. This loan was issued for a twenty year period with a final maturity in fiscal year 2031.

The District was approved for a \$14,528,700 Ohio Water Development Authority loan for the Solids Contact Clarifier/Recarbonation project. As of June 30, 2013, the District has drawn down proceeds of \$12,051,989. Total current year additions of \$7,220,730 consisted of proceeds of \$7,057,936 and capitalized interest of \$162,794. This loan has not been finalized and therefore the repayment schedule is not included in the schedule of debt service payments.

The District was approved for an \$8,000,000 Ohio Water Development Authority loan for the Solid Clarifiers/Recarbonation project. As of June 30, 2013, the District has drawn down proceeds of \$7,951,293. Total current year additions of \$122,973 consisted of proceeds of \$42,849 and capitalized interest of \$80,124. This loan has not been finalized and therefore the repayment schedule is not included in the schedule of debt service payments.

The District was approved for a \$566,754 Ohio Water Development Authority loan for the Phase II Valve/Pipeline Replacement project. As of June 30, 2013, the District has drawn down proceeds of \$112,404. Total current year additions of \$112,210 consisted of proceeds of \$110,433 and capitalized interest of \$1,777. This loan has not been finalized and therefore the repayment schedule is not included in the schedule of debt service payments.

The District was approved for a \$499,032 Ohio Water Development Authority loan for the Chemical Feed Improvements Design project. As of June 30, 2013, the District has drawn down proceeds of \$314,966. Total current year additions of \$302,436 consisted of proceeds of \$296,577 and capitalized interest of \$5,859. This loan has not been finalized and therefore the repayment schedule is not included in the schedule of debt service payments.

The District was approved for a \$564,598 Ohio Water Development Authority loan for the Berlin Pump Station Improvements project. As of June 30, 2013, the District has drawn down proceeds of \$342,983. Total current year additions of \$338,543 consisted of proceeds of \$335,503 and capitalized interest of \$3,040. This loan has not been finalized and therefore the repayment schedule is not included in the schedule of debt service payments.

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Dave Yost • Auditor of State

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

Mahoning Valley Sanitary District
Trumbull County
P.O. Box 4119
Youngstown, Ohio 44515

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and each major fund of the Mahoning Valley Sanitary District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 3, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting purposes.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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www.ohioauditor.gov

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

March 3, 2014



Dave Yost • Auditor of State

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
MAY 22, 2014**