

Mahoning Valley Sanitary District, Ohio

**For the Fiscal Year Ended June 30, 2014
Annual Financial Report**



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.

Alan Tatalovich, CPA
Secretary/Treasurer

Mahoning Valley Sanitary District, Ohio

Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Issued by:

Department of Finance and Administration

Alan Tatalovich, CPA
Secretary/Treasurer

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Introductory Section

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**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

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STATE OF OHIO
THE MAHONING VALLEY SANITARY DISTRICT

December 23, 2014

Member Cities of Youngstown and Niles and
Members of the Board of Directors:

The management of the Mahoning Valley Sanitary District is pleased to provide this annual financial report to its member cities and consumers and other interested parties to demonstrate its accountability and communicate the District's financial position and resource flows as of and for the year ended June 30, 2014. Management of the District is responsible for the fair presentation of this annual financial report, for maintaining appropriate internal control over financial reporting, and for complying with applicable finance-related laws, regulations, and provisions of grants and contracts. The District reports its financial statements and schedule on a modified cash basis, which management has determined is an acceptable financial reporting framework that differs from generally accepted accounting principles (GAAP). All of the financial analyses in this report should take into consideration the limitations inherent in the modified cash basis of accounting.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The Auditor of State has issued their opinion on these financial statements, which includes an unmodified ("clean") opinion on the District's financial statements for the year ended June 30, 2014. The independent auditor's report is located at the front of the financial section of this report.

Profile of the District

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. A Court of Jurisdiction that includes the Trumbull and Mahoning County Court of Common Pleas and a Board of Directors that is appointed by the member cities oversees the District. The District's Board of Directors consists of four members, two from the City of Youngstown and two from the City of Niles. The Sanitary District Act empowers the District to provide water supply, treatment, transmission feeder systems and storage reservoirs, but not distribution.

The District utilizes a 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 expense 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.

Local Economy

The District's water supply comes from the Meander Creek Reservoir. The 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.

The District's Board of Directors consists of four members, two from the City of Youngstown and two from the City of Niles. Matthew J. Blair, Esq. served as President of the Board for the majority of fiscal year 2014. Other Board members include; James V. Sylvester, Niles City Council appointment; Rufus G. Hudson Youngstown City Council appointment and Jamael T. Brown, City of Youngstown mayoral appointment.

The District's Board of Directors hired a salaried employee; a Resident Engineer to replace a retired employee during fiscal year 2014. One additional hourly employee was hired and 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 April of 2014, the current Chief Engineer elected to retire at month end. The Board was aware of this impending retirement and proceeded with due diligence to find a qualified replacement. The Board elected to promote the Assistant Engineer to the position of Chief Engineer. The Chief Engineer is a contract employee by statute and the Board awarded an initial contract for the remainder of fiscal year 2014 and renewed the contract for one year beginning July 1, 2014 through June 30, 2015.

The District's hourly employees are represented by AFSCME Local 1649. The Union employees are in the second year of a three-year contract that expires on June 30, 2016.

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.

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.

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. Our Board is exploring ways to benefit the District's and our member cities overall water distribution by investigating all avenues open to them. Though there is interest on the District's part to possibly participate in some 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 would be allowed on reservoir property. This issue may become a more prominent one in future years.

Financial Analysis

The financial statements are reported using the modified cash basis of accounting. Under this basis of accounting, only cash (and cash equivalents) and items that involve the receipt or disbursement of cash (or cash equivalents) during the period are recognized, except as follows:

- (1) *Interfund receivables and payables* that arise from transactions and events involving cash or cash equivalents are recognized;
- (2) *Assets that normally convert to cash or cash equivalents* (e.g., certificates of deposit, marketable investments, and receivables resulting from loans) that arise from transactions and events involving cash or cash equivalents are recognized; and
- (3) *Liabilities for cash (or cash equivalents) held on behalf of others, held in escrow, or received in advance of being earned or meeting the eligibility requirements* are recognized.

As a result of the use of this modified cash basis of accounting, certain transactions are not recorded in the financial statements. For example, accounts receivable and revenue for billed or provided services that have not been collected in cash are not accrued as revenue or receivables. Additionally, capital assets such as property, equipment, and infrastructure are not reported on the face of the financial statements. However, the government's long-term debt obligations are disclosed in the notes to the financial statements.

STATEMENT OF NET POSITION

(Modified Cash Basis)

	2014	2013	Change
Assets			
Cash and Cash Equivalents	\$29,874,355	\$26,509,280	\$3,365,075
Restricted Assets - Cash and Cash Equivalents with Trustee	5,027,908	4,987,914	39,994
Total Assets	\$34,902,263	\$31,497,194	\$3,405,069
Net Position			
Restricted for:			
Debt Service	\$5,027,908	\$4,987,914	\$39,994
Unrestricted	29,874,355	26,509,280	3,365,075
Total Net Position	\$34,902,263	\$31,497,194	\$3,405,069

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.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

(Modified Cash Basis)

	2014	2013	Change
Operating Revenues			
Charges for Services	\$16,775,182	\$16,696,622	\$78,560
Special Assessments	1,720,981	1,731,962	(10,981)
Miscellaneous	1,028	6,702	(5,674)
<i>Total Operating Revenues</i>	<u>18,497,191</u>	<u>18,435,286</u>	<u>61,905</u>
Operating Expenses			
Personal Services	4,171,589	4,133,826	(37,763)
Supplies and Services	3,069,233	2,897,254	(171,979)
<i>Total Operating Expenses</i>	<u>7,240,822</u>	<u>7,031,080</u>	<u>(209,742)</u>
<i>Operating Income (Loss)</i>	<u>11,256,369</u>	<u>11,404,206</u>	<u>(147,837)</u>
Non-Operating Revenues (Expenses)			
Timber Sales	75,000	0	75,000
Royalties	77,799	63,231	14,568
Miscellaneous - Non-Operating Revenue	31,383	2,540	28,843
Miscellaneous - Non-Operating Expense	(88,892)	(27,538)	(61,354)
Capital Outlay:			
Equipment - Non-Operating Expense	(406,056)	(317,294)	(88,762)
Capital Outlay - Non-Operating Expense	(960,433)	(1,104,465)	144,032
EPA/OWDA Funds Disbursed	(4,401,938)	(7,845,482)	3,443,544
Redemption of Principal	(5,365,562)	(4,866,151)	(499,411)
Interest and Fiscal Charges	(1,512,335)	(1,350,795)	(161,540)
Proceeds of EPA/OWDA Loan	4,401,938	7,845,482	(3,443,544)
Investment Earnings	5,700	3,135	2,565
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(8,143,396)</u>	<u>(7,597,337)</u>	<u>(546,059)</u>
<i>Income (Loss) before Capital Contributions</i>	<u>3,112,973</u>	<u>3,806,869</u>	<u>(693,896)</u>
Capital Contributions	292,096	344,659	(52,563)
<i>Change in Net Position</i>	<u>3,405,069</u>	<u>4,151,528</u>	<u>(746,459)</u>
<i>Net Position Beginning of Year</i>	<u>31,497,194</u>	<u>27,345,666</u>	<u>4,151,528</u>
<i>Net Position End of Year</i>	<u>\$34,902,263</u>	<u>\$31,497,194</u>	<u>\$3,405,069</u>

Operating revenues represent the vast majority of total receipts and are primarily user charges and assessments for services provided. Charges for services revenue increased slightly in fiscal year 2014 due to the increased purchases from customers. Operating expenses increased from changes to wages and benefits coupled with larger supply purchases as a cost of doing business.

The capital outlay expenses represent costs incurred in the purchase and building of capital assets. Redemption of principal represents costs for the retirement of bonded debt and OWDA loans.

Overall, the financial position of the District improved over fiscal year 2013. The District's revenue stream continues to exceed the expenses leaving the District with a strong net position going forward.

The Ohio Revised Code Section 6115 sets the Districts' funds at two: the Maintenance fund and the Bond fund. The District also reflects 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 modified cash basis of accounting approach and are cumulatively reported using the modified cash basis of accounting which measures cash and other financial assets that can be readily turned into cash. For reporting purposes, the District combines these and displays a stand-alone enterprise fund.

For the fiscal year ended June 30, 2014, the stand-alone enterprise fund reported net position of \$34,902,263. Despite increases in operating and debt service expenses, the enterprise fund had an increase in net position as revenues continued to outpace expenses which also includes the receipt of monies that are not yet due and payable for approved capital improvement projects.

Debt

At June 30, 2014 the District had \$16,990,000 in outstanding bonds payable and \$34,028,544 in outstanding OWDA loans payable. The District paid \$3,785,000 in principal on bonds and \$1,580,562 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. In fiscal year 2014, the District entered into an additional loan agreement with the Ohio Water Development Authority/Environmental Protection Agency for a project relating to Supervisory Control and Data Acquisition (SCADA)/Enhanced Security Improvements for a total amount of \$3,051,452. This amount represents the loan amounts encumbered for loan fees and contract services. This loan as well as the Solids Contact Clarifier Recarbonation Project loan, the Phase II Valve/Pipeline Replacement Project loan, the Chemical Feed Improvements Design Project loan, the Berlin Pump Station Improvements Design Project loan and the SCADA/Instrumentation Improvements 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, 2014.

Long-Term Financial Planning

The Board of Directors 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 and Capital Improvements program as detailed in the five year Operating and Capital Improvement Plan. As mentioned, the District utilizes a five-year cash financial forecast to estimate revenues and control expenses 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.

Current Financial Related Activities

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.

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, 2014. The District, over the last ten years, has 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 benefit of all residents.

However, the future financial stability of the District will be challenged based on our area's economic health. There had been high expectations in our area that shale gas exploration and drilling would bring long term economic growth to the Mahoning Valley. These high expectations have dimmed recently based on the lower than expected returns on test wells. Increased shale gas exploration and drilling in the near future remains quite uncertain. Some area residents have had success finding employment in this industry but have decreased because of limited new drilling. Those 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 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 a complete overhaul of existing equipment (refurbishing) rather than purchasing new. These Amendments to the Official Plan of the District which was originally established in 1926 were presented to the District's member cities through meetings with important stakeholders and memorialized in the District's five year Operating and Capital Improvement Plan. The five-year forecast incorporates a capital plan for the same period of time, and is utilized by staff to manage the District's infrastructure resources effectively. Additionally, our 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 was manifested into a new 3 year Schedule A revenue stream that went into effect on July 1, 2013.

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 should be online by late April of 2015 with tweaks and necessary adjustments to the project as all-encompassing as this is anticipated to take several months after the project's official completion date. 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 examples of projects that were deemed necessary and then were properly funded by Board Resolution and Appropriation; Sludge Line Replacement Project Phase II, \$364,800; Roofing projects on existing plant buildings, \$248,115. The District makes yearly applications to the Ohio Public Works Commission for grants on projects designed to be paid from District unrestricted funds. The District's staff participates in District 6 meetings throughout the year to present a project that it deems important and will receive favorable points from the District 6 board to be awarded Ohio Public Works Commission grant fund approval. The aforementioned Sludge Line Replacement Project Phase II was partially funded in the amount of \$251,712 by an OPWC grant.

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. The District is hopeful that more federal funds will be made available for infrastructure rebuilding; water, sewer and bridges leading to further economic recovery.

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, competes 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 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 stated mission of providing the very best water product we can while preserving the public health and the surrounding natural environment.

Awards and Acknowledgements

This is the first year that the District has submitted a report to the Government Finance Officers Association (GFOA) for the prestigious Certificate of Conformance award. In order to be awarded a Certificate of Conformance, the District has to publish an easily readable and efficiently organized Small Government Annual Financial Report that satisfies Certificate of Conformance Program requirements.

A Certificate of Conformance is valid for a period of one year only. We believe that our current financial report meets the Certificate of Conformance Program's requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate.

The preparation of this report could not have been accomplished without the efficient and dedicated service of various staff within the Administration. Their efforts are greatly appreciated. Credit must also be given to the Board of Directors for their unfailing support for maintaining the highest standards of professionalism in the management of the District's finances.

Respectfully submitted,



Alan Tatalovich
Secretary/Treasurer

MAHONING VALLEY SANITARY DISTRICT

List of Principal Officials at June 30, 2014

APPOINTED OFFICIALS

CITY OF NILES, MAYORAL APPOINTMENT
CITY OF NILES, COUNCIL APPOINTMENT

MATTHEW J. BLAIR
JAMES V. SYLVESTER

CITY OF YOUNGSTOWN, MAYORIAL APPOINTMENT
CITY OF YOUNGSTOWN, COUNCIL APPOINTMENT

JAMAEL T. BROWN
RUFUS G. HUDSON

ADMINISTRATIVE STAFF

CHIEF ENGINEER
SECRETARY/TREASURER

ANTHONY VIGORITO
ALAN TATALOVICH

SUPERINTENDENT OF PURIFICATION
CHIEF OF OPERATIONS

JOHN NEMET
KEITH REES

SUPERINTENDENT OF PUMPING

JOE WOODLEY

RESIDENT ENGINEER

JON JAMISON

CHIEF PATROLMAN

RALPH MILLER

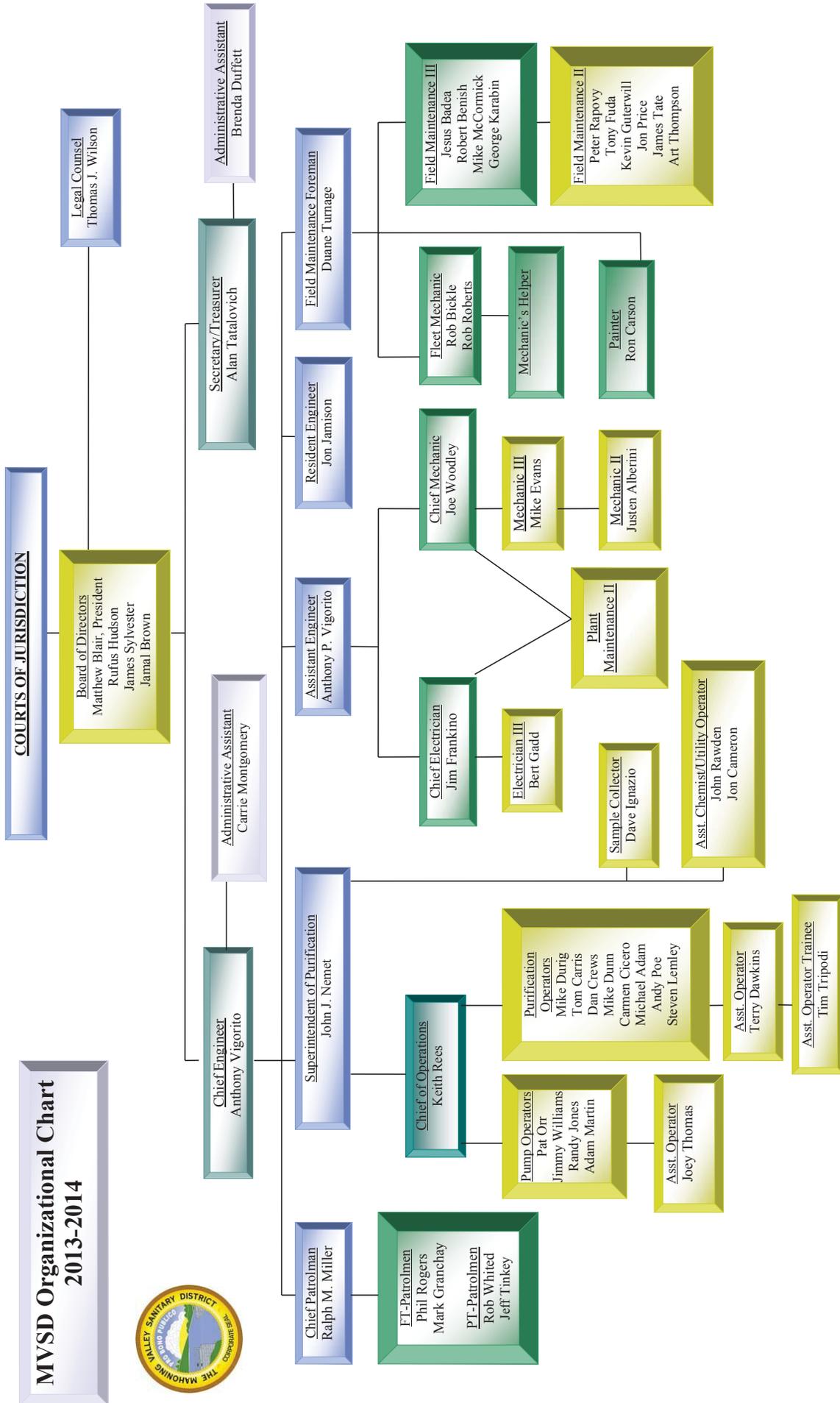
FIELD MAINTENANCE SUPERVISOR

DUANE TURNAGE

ADMINISTRATIVE ASSISTANTS

BRENDA DUFFETT
CARRIE MONTGOMERY

MVSD Organizational Chart 2013-2014



Financial Section

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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 Mahoning Valley Sanitary District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2014, 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 modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash financial position of the Mahoning Valley Sanitary District, Trumbull County, Ohio (the District), as of June 30, 2014, and the changes in cash financial position and cash flows thereof 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 basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to 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.

The introductory section and the financial section's trend information present additional analysis and are not a required part of the basic financial statements.

We did not subject the introductory section presented on pages 3-10 of the report and the trend information presented on pages 33-38 of the report to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 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, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

December 23, 2014

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The Mahoning Valley Sanitary District

Statement of Net Position

June 30, 2014

(Modified Cash Basis)

Current Assets	
Cash and Cash Equivalents	\$29,874,355
Restricted Assets - Cash and Cash Equivalents with Trustee	<u>5,027,908</u>
<i>Total Assets</i>	<u><u>\$34,902,263</u></u>
Net Position	
Restricted for:	
Debt Service	\$5,027,908
Unrestricted	<u>29,874,355</u>
<i>Total Net Position</i>	<u><u>\$34,902,263</u></u>

See accompanying notes to the basic financial statements

The Mahoning Valley Sanitary District

Statement of Revenues,

Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2014

(Modified Cash Basis)

Operating Revenues	
Charges for Services	\$16,775,182
Special Assessments	1,720,981
Miscellaneous	1,028
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<i>Total Operating Revenues</i>	<u>18,497,191</u>
Operating Expenses	
Personal Services	4,171,589
Supplies and Services	3,069,233
	<hr/>
<i>Total Operating Expenses</i>	<u>7,240,822</u>
<i>Operating Income (Loss)</i>	<u>11,256,369</u>
Non-Operating Revenues (Expenses)	
Timber Sales	75,000
Royalties	77,799
Miscellaneous - Non Operating Revenue	31,383
Miscellaneous - Non Operating Expense	(88,892)
Capital Outlay:	
Equipment - Non Operating Expense	(406,056)
Capital Outlay - Non Operating Expense	(960,433)
EPA/OWDA Funds Disbursed	(4,401,938)
Redemption of Principal	(5,365,562)
Interest and Fiscal Charges	(1,512,335)
Proceeds of EPA/OWDA Loan	4,401,938
Investment Earnings	5,700
	<hr/>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(8,143,396)</u>
<i>Income (Loss) before Capital Contributions</i>	3,112,973
Capital Contributions	292,096
	<hr/>
<i>Change in Net Position</i>	3,405,069
<i>Net Position Beginning of Year</i>	<u>31,497,194</u>
<i>Net Position End of Year</i>	<u><u>\$34,902,263</u></u>

See accompanying notes to the basic financial statements

The Mahoning Valley Sanitary District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2014

(Modified Cash Basis)

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Customers	\$16,775,182
Cash Received from Assessments	1,720,981
Cash Received from Timber Sales	75,000
Cash Received from Royalties	77,799
Other Cash Received	32,411
Cash Payments to Employees for Services	(4,171,589)
Cash Payments to Suppliers for Goods and Services	(3,069,233)
Other Cash Payments	(88,892)

Net Cash Provided by (Used for) Operating Activities 11,351,659

Cash Flows from Capital and Related Financing Activities

Capital Grants	292,096
Proceeds of EPA/OWDA Loan	4,401,938
Redemption of Principal - Water Revenue Bonds	(3,785,000)
Interest and Fiscal Charges - Water Revenue Bonds	(518,475)
Redemption of Principal - EPA/OWDA Loans	(1,580,562)
Interest and Fiscal Charges - EPA/OWDA Loans	(993,860)
Acquisition of Capital Assets	(5,768,427)

*Net Cash Provided by (Used for)
Capital and Related Financing Activities* (7,952,290)

Cash Flows from Investing Activities

Interest on Investments	<u>5,700</u>
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Net Increase (Decrease) in Cash and Cash Equivalents 3,405,069

Cash and Cash Equivalents Beginning of Year 31,497,194

Cash and Cash Equivalents End of Year \$34,902,263

**Reconciliation of Operating Income (Loss) to Net Cash
Provided by (Used for) Operating Activities**

Operating Income (Loss) \$11,256,369

Adjustment:

Non-Operating Revenues:

Timber Sales	75,000
Royalties	77,799
Other Non-Operating Cash Received	31,383
Other Non-Operating Cash Payments	(88,892)

Net Cash Provided by (Used for) Operating Activities \$11,351,659

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, 2014

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.

For reporting entity purposes, the District is a stand-alone government. Management has considered all potential component units and does not believe the District has any potential component units that should be included as part of the District's reporting entity.

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

Basis of Accounting

The District's financial statements are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognized revenues, expenses, assets and liabilities resulting from cash transactions, adjusted for modifications that have substantial support in generally accepted accounting principles.

Only cash (and cash equivalents) and items that involve the receipt or disbursement of cash (or cash equivalents) during the period are recognized, except as follows:

- (1) *Interfund receivables and payables* that arise from transactions and events involving cash or cash equivalents are recognized;
- (2) *Assets that normally convert to cash or cash equivalents* (e.g., certificates of deposit, marketable investments, and receivables resulting from loans) that arise from transactions and events involving cash or cash equivalents are recognized; and
- (3) *Liabilities for cash (or cash equivalents) held on behalf of others, held in escrow, or received in advance of being earned or meeting the eligibility requirements* are recognized.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

As a result of the use of this modified cash basis of accounting, certain transactions are not recorded in the financial statements. For example, accounts receivable and revenue for billed or provided services that have not been collected in cash are not accrued as revenue or receivables. Additionally, capital assets such as property, equipment, and infrastructure are not reported and long-term liabilities such as debt and compensated absences are also not reported on the face of the financial statements. However, the government's long-term debt obligations are disclosed in the notes to the financial statements.

Basis of Presentation

The District used fund accounting 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. The operations of the District are reported as a single enterprise fund.

An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows. Assets and liabilities associated with the operation of the District are consistent with the modified cash basis included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position on a modified cash basis. The Statement of Cash Flows provides information about how the District finances and meets its cash flow needs.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, savings accounts and short-term investments with original maturities of three months or less from the date of acquisition.

During fiscal year 2014, investments were limited to treasury money market accounts. The District values investments and cash equivalents at cost. The District classifies investments in money market funds as cash equivalents as they are highly liquid investments and part of the District's cash management activities.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or law of other governments or imposed by law through constitutional provisions.

Pursuant to a bond indenture, restricted assets include cash and cash equivalents with a trustee reserved for current and future debt service payments.

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 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are charges for services and certain revenues collected through the special assessment process. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as non-operating.

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.

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

Budgetary Process

Although the District reports a single enterprise fund, the Ohio Revised Code requires the District to account for its day-to-day activity using a maintenance fund and a bond fund. The maintenance fund accounts for all moneys received as compensation for providing a water supply for domestic, municipal and public use under Section 6115.19, Ohio Revised Code. The bond fund accounts for 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.

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.

Budgetary expenses (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.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 3 - 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.

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 may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
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. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain commercial paper notes and bankers' acceptances for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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, \$29,509,279 of the District's bank balance of \$30,009,279 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 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, 2014, the District had an investment in treasury money market accounts with a carrying and fair value of \$5,027,908 and a maturity of less than one year.

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.

Credit Risk. The Moody's rating of the District's investment is Aaa. The District has no investment policy that addresses credit risk.

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

Note 4 - 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, 2014.

Litigation

The District is not party to any legal proceedings at June 30, 2014.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 5 - 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 2014, the District contracted with Love Insurance for various types of insurance coverage as follows:

Type	Coverage	Deductible
Property/Inland Marine	\$155,000,000	\$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	50,000	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 \$660 per month, husband and wife coverage of \$1,319 per month, and full family coverage of \$2,123 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 6 - 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.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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. Member contribution rates, as set forth in Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the fiscal year ended June 30, 2014, 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 2014 was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. For fiscal year 2014, the portion of employer contribution allocated to health care was 1.00 percent for members in the Traditional Plan and the Combined Plan. Effective January 1, 2014, the portion of employer contributions allocated to health care increased to 2 percent. Employer contribution rates are actuarially determined.

The District's required contributions for pension obligations to the Traditional Pension and Combined Plans for the fiscal years ended June 30, 2014, 2013 and 2012 were \$344,598, \$309,701 and \$251,939, respectively; 89.60 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. There were no contributions to the member-directed plan for 2014.

Note 7 – 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 2014, local government employers contributed at a rate of 14.0 percent of covered payroll which is the maximum employer contribution rate permitted by the Ohio Revised Code.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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 2013, the portion of employer contributions allocated to health care for members in the Traditional Plan and the Combined Plan was 1.0 percent. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0 percent for both plans, as recommended by the OPERS Actuary. These are the maximum employer contributions rates permitted by the Ohio Revised Code.

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 District's contributions allocated to fund post-employment health care benefits for the fiscal years ended June 30, 2014, 2013 and 2012 were \$41,352, \$67,326 and \$100,776, respectively; 89.60 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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 8 - Long-Term Obligations

As a result of the modified cash basis of accounting in this report, obligations related to long-term debt and other obligations are not reported as liabilities in the financial statements. 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	2.00%	4,655,884	2037
Chemical Feed Improvements Design	2.00%	703,431	2020
Berlin Pump Station Improvements	2.00%	2,452,592	2037
SCADA/Instrumentation Improvements	2.94%	636,149	2036
SCADA/Enhanced Security Improvements	4.32%	3,051,452	2036

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

	Balance 06/30/13	Additions	Reductions	Balance 06/30/14	Amounts Due in One Year
Business-Type Activities					
<i>Water Revenue Bonds</i>					
Series 2010, Refunding	\$20,775,000	\$0	(\$3,785,000)	\$16,990,000	\$3,865,000
Premium	159,433	0	(29,433)	130,000	0
<i>Total Revenue Bonds</i>	<u>20,934,433</u>	<u>0</u>	<u>(3,814,433)</u>	<u>17,120,000</u>	<u>3,865,000</u>
<i>EPA/OWDA Loans</i>					
Filter System Improvement	4,974,064	0	(326,394)	4,647,670	337,420
Niles Standpipe Replacement	992,678	0	(57,018)	935,660	58,886
Chemical Feed Building Roof	1,230,294	0	(70,666)	1,159,628	72,982
Administration and Filter Building Roof	244,137	0	(12,283)	231,854	12,838
WTP Lagoon Maintenance	863,915	0	(161,464)	702,451	166,935
Valve Replacement/Gate House	2,177,449	0	(124,426)	2,053,023	124,426
Solids Contact Clarifier/Recarbonation	12,065,311	1,689,551	(496,096)	13,258,766	0
Solid Clarifiers/Recarbonation	7,836,355	0	(332,215)	7,504,140	338,893
Phase II Valve/Pipeline Replacement	114,187	535,010	0	649,197	0
Chemical Feed Improvements Design	320,844	148,294	0	469,138	0
Berlin Pump Station Improvements	346,035	429,267	0	775,302	0
SCADA/Instrumentation Improvements	2,200	584,029	0	586,229	0
SCADA/Enhanced Security Improvements	0	1,055,486	0	1,055,486	0
<i>Total EPA/OWDA Loans</i>	<u>31,167,469</u>	<u>4,441,637</u>	<u>(1,580,562)</u>	<u>34,028,544</u>	<u>1,112,380</u>
Total Business-Type Activities	<u>\$52,101,902</u>	<u>\$4,441,637</u>	<u>(\$5,394,995)</u>	<u>\$51,148,544</u>	<u>\$4,977,380</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 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 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. Restricted assets held by the trustee related to the Water Revenue Bond amounted to \$5,027,908. The District also internally maintains an operating reserve account of \$1,221,855 and a rate stabilization account of \$1,196,405. Under the terms of the bond covenant, these internally held accounts may be accessed by the District.

The modified cash basis does not recognize premiums on debt. However, the above chart reflects the annual amortization of the premium over the term of the bonds using the straight-line method. When the Water Revenue Refunding Bonds were issued, the District incurred an accounting loss which represents the difference between the reacquisition price of the refunded bonds and the carrying amount of the old debt. The modified cash basis does not recognize deferred charges on refunding transactions; however, if this amount were amortized, the balance at June 30, 2014, would have been \$281,914.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

The District has pledged future revenues, net of operating expenses, to repay revenue bonds. The debt is payable solely from net revenues and are payable through 2019. Annual principal payments on the debt issues are expected to require 33.63 percent of net revenues. The total principal and interest remaining to be paid on the debt is \$18,131,850. Principal and interest paid for the current year and total net revenues were \$4,303,475 and \$11,256,369, respectively.

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.

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, 2014, the District has drawn down proceeds of \$13,741,540. Total current year additions consisted of proceeds of \$1,689,551. This loan has not been finalized and therefore the repayment schedule is not included in the schedule of debt service payments. Until a final repayment schedule is available, the District is paying based upon estimates.

In fiscal year 2012, the District was approved for an \$8,000,000 Ohio Water Development Authority loan for the Solid Clarifiers/Recarbonation project. This loan was issued for a twenty year period with a final maturity in fiscal year 2033.

The District was approved for a \$4,655,884 Ohio Water Development Authority loan for the Phase II Valve/Pipeline Replacement project. As of June 30, 2014, the District has drawn down proceeds of \$646,428. Total current year additions of \$535,010 consisted of proceeds of \$528,000 and capitalized interest of \$7,010. 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 \$703,431 Ohio Water Development Authority loan for the Chemical Feed Improvements Design project. As of June 30, 2014, the District has drawn down proceeds of \$458,486. Total current year additions of \$148,294 consisted of proceeds of \$143,520 and capitalized interest of

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

As a result of the use of the modified cash basis of accounting in this report, obligations related to accrued compensated absences are not reported as liabilities in the financial statements. Expenses related to compensated absences are recorded when paid.

Note 9 – Subsequent Event

On October 29, 2014, the District passed Resolution No. 6128, earmarking certain District cash balances for capital improvement projects as follows:

<u>Capital Project Descriptions</u>	<u>Amount</u>
Venturi meter project and chemical feed system	\$8,159,316
Ongoing sludge removal, sludge lagoon and access road repair	4,149,630
Berlin and Venturi projects completions	2,653,001
Improvement of existing facilities and equipment	<u>2,444,885</u>
Total	<u><u>\$17,406,832</u></u>

Supplementary and Other Information Accompanying the Basic
Financial Statements

Trend Information

This part of the Mahoning Valley Sanitary District's annual financial report presents detailed information as the context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

<u>Contents</u>	<u>Page(s)</u>
Financial Trends These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	34 - 37
Debt Capacity This schedule presents information to help the reader assess the affordability of the District's current levels of outstanding debt.	38

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant fiscal year.

Mahoning Valley Sanitary District
Net Position by Component
Last Ten Fiscal Years
(Modified Cash Basis)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Restricted for:				
Debt Service	\$5,027,908	\$4,987,914	\$7,863,296	\$6,709,955
Unrestricted	<u>29,874,355</u>	<u>26,509,280</u>	<u>19,482,370</u>	<u>14,642,321</u>
<i>Total Net Position</i>	<u><u>\$34,902,263</u></u>	<u><u>\$31,497,194</u></u>	<u><u>\$27,345,666</u></u>	<u><u>\$21,352,276</u></u>

Source: District Financial Records

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$7,784,814	\$6,850,823	\$7,658,062	\$7,621,004	\$7,406,606	\$7,253,992
<u>10,073,591</u>	<u>7,234,548</u>	<u>5,374,509</u>	<u>4,502,876</u>	<u>3,959,893</u>	<u>3,565,223</u>
<u>\$17,858,405</u>	<u>\$14,085,371</u>	<u>\$13,032,571</u>	<u>\$12,123,880</u>	<u>\$11,366,499</u>	<u>\$10,819,215</u>

Mahoning Valley Sanitary District
Changes in Net Position
Last Ten Fiscal Years
(modified cash basis of accounting)

	2014	2013	2012	2011
Operating Revenues				
Charges for Services	\$16,775,182	\$16,696,622	\$14,859,264	\$13,625,900
Special Assessments	1,720,981	1,731,962	1,730,613	1,723,929
Miscellaneous	1,028	6,702	6,608	3,117
<i>Total Operating Revenues</i>	<u>18,497,191</u>	<u>18,435,286</u>	<u>16,596,485</u>	<u>15,352,946</u>
Operating Expenses				
Personal Services	4,171,589	4,133,826	3,882,473	3,994,118
Supplies and Services	3,069,233	2,897,254	2,604,861	2,566,415
Contractual Services	0	0	0	0
Materials and Supplies	0	0	0	0
Reduction in Reserve Required	0	0	0	0
Miscellaneous	0	0	0	0
<i>Total Operating Expenses</i>	<u>7,240,822</u>	<u>7,031,080</u>	<u>6,487,334</u>	<u>6,560,533</u>
<i>Operating Income (Loss)</i>	<u>11,256,369</u>	<u>11,404,206</u>	<u>10,109,151</u>	<u>8,792,413</u>
Non-Operating Revenues (Expenses)				
Timber Sales	75,000	0	0	0
Royalties	77,799	63,231	85,670	99,744
Miscellaneous - Non-Operating Revenue	31,383	2,540	1,914	4,809
Miscellaneous - Non-Operating Expense	(88,892)	(27,538)	(32,831)	(117,199)
Capital Outlay:				
Equipment - Non-Operating Expense	(406,056)	(317,294)	(309,531)	(372,059)
Capital Outlay - Non-Operating Expense	(960,433)	(1,104,465)	(2,906,552)	(3,048,944)
EPA/OWDA Funds Disbursed	(4,401,938)	(7,845,482)	(11,721,146)	(2,067,461)
Redemption of Principal	(5,365,562)	(4,866,151)	(2,448,113)	(1,419,153)
Interest and Fiscal Charges	(1,512,335)	(1,350,795)	(960,160)	(936,187)
Proceeds of EPA/OWDA Loan	4,401,938	7,845,482	11,721,146	2,067,461
Bond Issuance Costs	0	0	0	(450,802)
Refunding Bonds Issued	0	0	0	27,030,000
Premium on Refunding Bonds Issued	0	0	0	247,734
Payment to Refunded Bond Escrow Agent	0	0	0	(28,982,233)
Investment Earnings	5,700	3,135	8,730	12,823
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(8,143,396)</u>	<u>(7,597,337)</u>	<u>(6,560,873)</u>	<u>(7,931,467)</u>
<i>Income (Loss) before Capital Contributions and Special Items</i>	3,112,973	3,806,869	3,548,278	860,946
Capital Contributions	292,096	344,659	2,445,112	2,632,925
Special Item - Lawsuit Settlement	0	0	0	0
Special Item - Emergency Boiler	0	0	0	0
<i>Change in Net Position</i>	<u>\$3,405,069</u>	<u>\$4,151,528</u>	<u>\$5,993,390</u>	<u>\$3,493,871</u>

Source: District Financial Records

2010	2009	2008	2007	2006	2005
\$13,472,573	\$12,240,620	\$10,911,949	\$9,458,840	\$8,881,520	\$7,834,481
2,593,028	863,524	1,717,279	1,725,044	1,732,569	1,724,369
12,371	6,263	11,281	11,955	13,268	2,401
<u>16,077,972</u>	<u>13,110,407</u>	<u>12,640,509</u>	<u>11,195,839</u>	<u>10,627,357</u>	<u>9,561,251</u>
3,968,346	3,884,477	3,680,828	3,505,387	3,361,421	2,991,980
2,549,672	0	0	0	0	0
0	0	0	41,287	241,861	383,332
0	2,833,520	2,795,870	2,792,760	2,544,302	2,287,064
0	0	0	0	81,523	96,500
0	0	53,461	28,421	39,986	28,817
<u>6,518,018</u>	<u>6,717,997</u>	<u>6,530,159</u>	<u>6,367,855</u>	<u>6,269,093</u>	<u>5,787,693</u>
<u>9,559,954</u>	<u>6,392,410</u>	<u>6,110,350</u>	<u>4,827,984</u>	<u>4,358,264</u>	<u>3,773,558</u>
0	0	62,880	61,192	48,733	52,110
113,384	238,903	164,992	107,497	196,158	57,289
0	34,320	95,606	0	50,766	0
(55,976)	(51,105)	0	0	(8,956)	(38,991)
(193,789)	(594,890)	0	0	(7,725)	(23,251)
(868,581)	0	(884,102)	(705,234)	(572,156)	(142,017)
(888,779)	(954,451)	(1,653,821)	(2,157,971)	(5,651,603)	(2,222,378)
(3,262,868)	(3,121,403)	(2,955,500)	(2,618,711)	(2,235,000)	(2,145,000)
(1,940,988)	(2,097,639)	(2,252,927)	(1,984,999)	(2,008,108)	(2,091,009)
888,779	954,451	1,653,821	2,157,971	5,651,603	2,255,084
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
25,923	93,887	408,295	509,194	379,598	184,158
<u>(6,182,895)</u>	<u>(5,497,927)</u>	<u>(5,360,756)</u>	<u>(4,631,061)</u>	<u>(4,156,690)</u>	<u>(4,114,005)</u>
3,377,059	894,483	749,594	196,923	201,574	(340,447)
395,975	158,317	159,097	560,458	415,210	0
0	0	0	0	(69,500)	0
0	0	0	0	0	(23,530)
<u>\$3,773,034</u>	<u>\$1,052,800</u>	<u>\$908,691</u>	<u>\$757,381</u>	<u>\$547,284</u>	<u>(\$363,977)</u>

Mahoning Valley Sanitary District
Outstanding Long-term Debt Obligations by Type
Last Ten Fiscal Years
(Modified Cash Basis)

Fiscal Year	General Obligation Bonds	Water Revenue Bonds	EPA/ OWDA Loans
2014	\$0	\$17,120,000	\$34,028,544
2013	0	20,934,433	31,167,469
2012	0	24,693,866	24,297,714
2011	0	26,473,300	13,127,993
2010	9,965,000	18,480,000	11,665,403
2009	11,150,000	20,025,000	11,280,522
2008	12,285,000	21,475,000	10,853,574
2007	13,355,000	22,845,000	9,703,188
2006	14,415,000	24,145,000	7,751,300
2005	15,415,000	25,380,000	2,255,084

Source: District Financial Records



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 Mahoning Valley Sanitary District, Trumbull County, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 23, 2014, wherein we noted that the District uses a special purpose framework other than generally accepted accounting principles.

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*.

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 "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

December 23, 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
JANUARY 6, 2015**