



Dave Yost • Auditor of State

**MAHONING VALLEY SANITARY DISTRICT
TRUMBULL COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

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, as of June 30, 2012, and the respective changes in cash financial position for the year then ended in conformity with the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

November 27, 2012

The Mahoning Valley Sanitary District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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, 2012. 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 – Meander Reservoir

The Mahoning Valley Sanitary District

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Financial Highlights

The District's net assets 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. During the fiscal year those funds were not expended as lagoons were not ready for sludge removal. The funds are earmarked for sludge removal and will be used for that purpose when our lagoons are filled to the capacity that requires sludge removal maintenance. Additionally, the debt service funds provided throughout the fiscal year were not due and payable until July 1, 2012. 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 year.

- The District's Board of Directors consists of four members, two from the City of Youngstown and two from the City of Niles. James V. Sylvester served as President of the Board for the majority of fiscal year 2012. Other Board members include; Matthew J. Blair, Esq., City of Niles mayoral appointment; Presley L. Gillespie, City of Youngstown mayoral appointment and Rufus G. Hudson Youngstown city council 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.
- In fiscal year 2010, the District's Board of Directors awarded contracts for Capital Improvements to the District's distribution system which includes valve replacements at selected areas of the system. In addition, the District is improving electrical and security at the Meander Dam Spillway as well as the replacement of raw water intake sluice gates and raw water waste gates. The total cost for these projects is \$5,337,000. The District's Board of Directors has entered into loan agreements for the repayment of these costs. The District received ARRA funds on these projects in the amount of \$2,300,000. The remaining balance of \$3,037,000 will be paid back to OWDA over 20 years at zero percent interest. The above projects have been completed at June 30, 2012. The District began paying the debt service for these projects on July 1, 2011.
- The District's Board of Directors did not hire any new employees during fiscal year 2012. The Board's overall hiring policy is to maintain proper staffing levels so that maintenance and service is maintained throughout our operations.

The Mahoning Valley Sanitary District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

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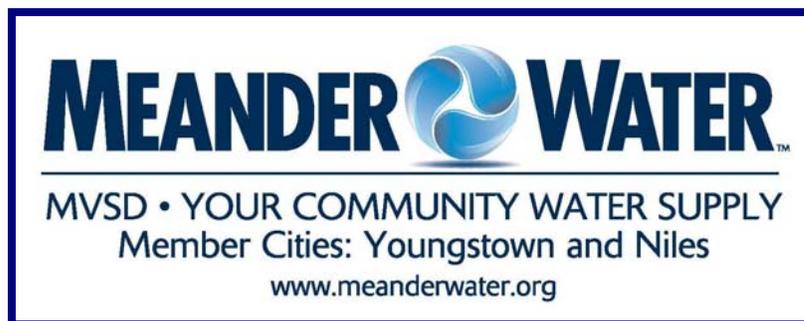


Image No. 1. – New Logo with Tag line and Website

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. The District looks forward to bringing Meander Water to as many Mahoning and Trumbull County residents as possible. This desire, however, will require a concerted effort of our member cities and elected officials in both Counties to expand the service areas that can receive Meander Water. This is a significant and very important mission that our Board has undertaken. These efforts have not been without success as the City of Niles enlarged its area of service to include customers that were previously provided water by a private water company. The City of Youngstown is also promoting an ongoing effort to provide MVSD water to as many Mahoning Valley residents as possible. An agreement with Aqua Ohio that provides for delivery of MVSD water through its member city Youngstown seems to be nearing a positive conclusion. 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 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. 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.

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, 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

The Mahoning Valley Sanitary District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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 Assets and the Statement of Activities suggest how the District did financially during fiscal year 2012 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 assets may serve over time as a useful indicator of a government's financial position. Net assets 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 receiving a loan. This fact increases our fund balance for a least part of a fiscal year. Sludge funds collected during the fiscal year and not yet expended form a healthy portion of the increase in net assets in the fiscal year. 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. The District implemented a ten percent increase in its revenue stream for fiscal year 2012 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 expire on June 30, 2013. The District's prepares for Court of Jurisdiction rate hearings by providing to our member cities and to the court 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 assets for fiscal year 2012 compared to 2011 on a cash basis:

The Mahoning Valley Sanitary District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

(Table 1)
Net Assets

	Business-Type Activities		
	2012	2011	Change
Assets			
Equity in Pooled Cash and Cash Equivalents	\$27,345,666	\$21,352,276	\$5,993,390
Net Assets			
Restricted for:			
Debt Service	\$5,076,152	\$3,924,200	\$1,151,952
Other Purposes	1,377,147	1,376,275	872
Unrestricted	20,892,367	16,051,801	4,840,566
Total Net Assets	\$27,345,666	\$21,352,276	\$5,993,390

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

Table 2 shows the changes in net assets for fiscal year 2012 compared to 2011.

(Table 2)
Changes in Net Assets

	Business-Type Activities		
	2012	2011	Change
Program Revenues			
Charges for Services and Assessments	\$16,741,047	\$15,520,603	\$1,220,444
Capital Grants, Loans and Bond Proceeds	14,166,258	31,978,120	(17,811,862)
<i>Total Program Revenues</i>	<i>30,907,305</i>	<i>47,498,723</i>	<i>(16,591,418)</i>
General Revenues			
Investment Earnings	8,730	12,823	(4,093)
Miscellaneous	8,522	7,926	596
<i>Total General Revenues</i>	<i>17,252</i>	<i>20,749</i>	<i>(3,497)</i>
<i>Total Revenues</i>	<i>30,924,557</i>	<i>47,519,472</i>	<i>(16,594,915)</i>
Program Expenses			
Operating Expense	6,487,334	6,560,533	73,199
Construction of Facilities/Equipment	14,970,060	5,605,663	(9,364,397)
Capital Charge	65,500	71,030	5,530
Bond Retirement	2,398,425	30,813,568	28,415,143
OWDA Loan Retirement	1,009,848	974,807	(35,041)
<i>Total Program Expenses</i>	<i>24,931,167</i>	<i>44,025,601</i>	<i>19,094,434</i>
<i>Change in Net Assets</i>	<i>5,993,390</i>	<i>3,493,871</i>	<i>2,499,519</i>
<i>Net Assets Beginning of Year</i>	<i>21,352,276</i>	<i>17,858,405</i>	<i>3,493,871</i>
<i>Net Assets End of Year</i>	<i>\$27,345,666</i>	<i>\$21,352,276</i>	<i>\$5,993,390</i>

The Mahoning Valley Sanitary District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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 2012 due to an increase in user rates that went into effect on July 1, 2011. In the prior fiscal year (2011), due to a bond refunding, a large portion of the program revenues also consists of refunding bond proceeds. The fiscal year 2011 corresponding payment to the refunded bond escrow agent to retire the old debt is reflected in the program expenses under bond retirement.

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 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 revenue stream adjustments that would be necessary based upon the Revised Official Plan and the current five year financial plan were presented to the cities in Resolution form in September of 2010. 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 the fiscal year 2011. The rates that have been established for the sale of water to our member cities will be in effect for three years and expire on June 30, 2013. 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 5 that are 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.

The Mahoning Valley Sanitary District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

(Table 3)

	Business-Type	
	Total Cost	Net Cost
	Of Services 2012	of Services 2012
Operating Expense	\$6,487,334	\$394,713
Construction of Facilities/Equipment	14,970,060	5,581,425
Capital Charge	65,500	0
Bond Retirement	2,398,425	0
OWDA Loan Retirement	1,009,848	0
Total Expenses	\$24,931,167	\$5,976,138

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 variations/changes during the fiscal year.

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, 2012 the District had \$24,505,000 in outstanding bonds payable and \$24,297,714 in outstanding OWDA loans payable. The District paid \$1,750,000 in principal on bonds and \$698,113 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 and two loans involving the Solids Clarifier and Recarbonation Project. All of the preceding projects named except for the Solids Contact Clarifier Project have been successfully completed. In fiscal year 2012, the District entered into three additional loan agreements with the Ohio Water Development Authority/Environmental Protection Agency for projects relating to the Phase II Valve/Pipeline Replacement (\$563,000), the Chemical Feed Improvements Design (\$486,585) and the Berlin Pump Station Improvements Design (\$554,066) for a total amount of \$1,603,651. This amount represents the loan amounts encumbered for design fees and technical services. These three loans as well as the loan for the Valve Replacement/Gate House Project and the two loans for the Solids Clarifier and Recarbonation Project 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, 2012.

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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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, 2012. 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 benefiting from the explosion in the shale gas exploration and drilling. The benefit being more area residents are finding employment in this industry. Unfortunately, it does not mean our overall population is increasing. 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 benefited from stimulus money made available through Federal Law. Our previous projects received \$2,300,000 in Federal stimulus funds that were used for onsite infrastructure improvements and infrastructure improvements in the distribution system which benefits the District and the cities of Youngstown and Niles directly. The District has again benefited with funding on our new project the Solids Contact Clarifier and Recarbonation Project. The OEPA/ OWDA have forgiven \$2,000,000 of debt on this projects' total cost. 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 receipt of stimulus funding has definitely benefited the member cities which purchase our product in bulk. The member cities of Youngstown and Niles have benefited greatly as the amount of the loan forgiveness on the improvements will not add to the debt of the District. 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 incorporates some of the latest and best water treatment technology now available and used in the water industry. 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, 2011 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 in the process now of editing and revisiting the current five year plan and will present our findings to our member cities. The new five year plan's core premise if approved by our Board of Directors and the cities will be manifested into a new 3 year Schedule A revenue stream that will go into effect on July 1, 2013.

The V & M Star Steel Company expansion is nearing completion and the permanent job projection has been set at 350. The final number of permanent jobs will have to be reported at a future date. This business expansion has already brought about job growth albeit just a small number of direct jobs can be attributed to this business expansion at this time. The District will not let the quality of its product suffer regardless of economic conditions of our Valley, but adjustments may have to be made regarding our water revenue stream if economic problems continue to burden our area. Regardless of the economic woes that may beset our area, the Board would have to seek additional resources or scale down in areas that would not jeopardize the quality of our delivered product, water. The ARRA funds already received (\$2.3 million) and the principal forgiveness of \$2 million made available to the District can only be viewed as a positive for this

The Mahoning Valley Sanitary District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

organization and the community that we serve. It is this entity's 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.

A last comment regarding funding for the District's infrastructure would be the future of State funding such as 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 vies for Issue II funds to help with infrastructure capital improvements. The District has received these funds for a variety of much needed capital improvements, the most recent being improvements to sludge removal lines, water tank rehabilitation and painting and pump station high service pump improvements. There is always an uncertainty as to whether there will be sufficient funding in this area and how the District's requests for funding will be received. Issue II funding as it now stands will help the District each year to accomplish some form of capital improvement 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 has benefited tremendously from this program. Funding in grants from the OPWC exceeded \$600,000 in fiscal year 2012. Projects that most probably would have been postponed or added to debt now can be accomplished with OPWC grant funding and the cash provided by a sufficient water revenue stream.

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.

The Mahoning Valley Sanitary District

Statement of Net Assets - Cash Basis

June 30, 2012

	<u>Business-Type Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$27,345,666</u>
Net Assets	
Restricted for:	
Debt Service	\$5,076,152
Other Purposes	1,377,147
Unrestricted	<u>20,892,367</u>
<i>Total Net Assets</i>	<u><u>\$27,345,666</u></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, 2012

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Assessments	Capital Grants and Loans	Business-Type Activities
Business-Type Activities				
Operating Expense	\$6,487,334	\$6,882,047	\$0	\$394,713
Construction of Facilities/Equipment	14,970,060	6,385,227	14,166,258	5,581,425
Capital Charge	65,500	65,500	0	0
Bond Retirement	2,398,425	2,398,425	0	0
OWDA Loan Retirement	1,009,848	1,009,848	0	0
<i>Total</i>	<u>\$24,931,167</u>	<u>\$16,741,047</u>	<u>\$14,166,258</u>	<u>5,976,138</u>
General Receipts				
Investment Earnings				8,730
Miscellaneous				8,522
<i>Total General Receipts</i>				<u>17,252</u>
Change in Net Assets				5,993,390
<i>Net Assets Beginning of Year</i>				<u>21,352,276</u>
<i>Net Assets End of Year</i>				<u><u>\$27,345,666</u></u>

See accompanying notes to the basic financial statements

The Mahoning Valley Sanitary District

Statement of Fund Net Assets - Cash Basis

Enterprise Funds

June 30, 2012

	<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>\$1,456,914</u>	<u>\$18,025,456</u>	<u>\$7,863,296</u>	<u>\$27,345,666</u>
Net Assets				
Restricted for:				
Debt Service	\$0	\$113,268	\$4,962,884	\$5,076,152
Other Purposes	1,377,147	0	0	1,377,147
Unrestricted	<u>79,767</u>	<u>17,912,188</u>	<u>2,900,412</u>	<u>20,892,367</u>
<i>Total Net Assets</i>	<u>\$1,456,914</u>	<u>\$18,025,456</u>	<u>\$7,863,296</u>	<u>\$27,345,666</u>

See accompanying notes to the basic financial statements

The Mahoning Valley Sanitary District
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Enterprise Funds
For the Fiscal Year Ended June 30, 2012*

	Maintenance Fund	Bond Fund	Bond Retirement Fund	Total
Operating Receipts				
Charges for Services	\$6,882,047	\$7,977,217	\$0	\$14,859,264
Special Assessments	0	1,730,613	0	1,730,613
Royalties	0	85,670	0	85,670
Miscellaneous	0	6,608	0	6,608
<i>Total Operating Receipts</i>	<u>6,882,047</u>	<u>9,800,108</u>	<u>0</u>	<u>16,682,155</u>
Operating Disbursements				
Personal Services	3,882,473	0	0	3,882,473
Supplies and Services	2,604,861	0	0	2,604,861
<i>Total Operating Disbursements</i>	<u>6,487,334</u>	<u>0</u>	<u>0</u>	<u>6,487,334</u>
<i>Operating Income</i>	<u>394,713</u>	<u>9,800,108</u>	<u>0</u>	<u>10,194,821</u>
Non-Operating Receipts (Disbursements)				
Miscellaneous - Non Operating Revenue	0	1,914	0	1,914
Miscellaneous - Non Operating Expense	(25,381)	(7,450)	0	(32,831)
Equipment - Non Operating Expense	(303,832)	(5,699)	0	(309,531)
Capital Outlay - Non Operating Expense	0	(2,906,552)	0	(2,906,552)
Capital Charge - Non Operating Revenue	0	65,500	0	65,500
Capital Charge - Non Operating Expense	(65,500)	0	0	(65,500)
Capital Grants	0	2,445,112	0	2,445,112
Redemption of Principal	0	(698,113)	(1,750,000)	(2,448,113)
Interest and Fiscal Charges	0	(311,735)	(648,425)	(960,160)
Proceeds of EPA/OWDA Loan	0	11,721,146	0	11,721,146
EPA/OWDA Funds Disbursed	0	(11,721,146)	0	(11,721,146)
Investment Earnings	1,014	6,011	1,705	8,730
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(393,699)</u>	<u>(1,411,012)</u>	<u>(2,396,720)</u>	<u>(4,201,431)</u>
<i>Income (Loss) before Transfers</i>	1,014	8,389,096	(2,396,720)	5,993,390
Transfers In	0	0	3,550,061	3,550,061
Transfers Out	0	(3,550,061)	0	(3,550,061)
<i>Change in Net Assets</i>	1,014	4,839,035	1,153,341	5,993,390
<i>Net Assets Beginning of Year</i>	<u>1,455,900</u>	<u>13,186,421</u>	<u>6,709,955</u>	<u>21,352,276</u>
<i>Net Assets End of Year</i>	<u>\$1,456,914</u>	<u>\$18,025,456</u>	<u>\$7,863,296</u>	<u>\$27,345,666</u>

See accompanying notes to the basic financial statements

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The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the District's accounting policies.

Basis of Presentation

The District's basic financial statements consist of a government-wide statement of net assets 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 assets 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 Mahoning Valley Sanitary District

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

The government-wide statement of net assets 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 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.

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. 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 2012, 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 and Prepaid Items

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.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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.

Deferred Loss 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. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented net of the general obligation bonds.

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. On governmental fund financial statements, bond premiums are reported in the year the bonds are issued.

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 Assets

The statements report restricted net assets when enabling legislation or creditors, grantors or laws, or regulations of other governments have imposed limitations on their use. Net assets 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

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.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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.

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 - 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 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;

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 (STAROhio);
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, \$22,019,280 of the District's bank balance of \$22,519,280 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, 2012, the District had an investment in Treasury Money Market accounts with a carrying and fair value of \$4,962,884 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. All of the District's investments were in Treasury Money Market accounts as of June 30, 2012.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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, 2012.

Litigation

The District is not party to any legal proceedings at June 30, 2012.

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 2012, the District contracted with Love Insurance for various types of insurance coverage as follows:

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 \$595.86 per month, husband and wife coverage of \$1,309.70 per month, and full family coverage of \$1,839.41 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.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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.

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, 2012, 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 2012 was 14.0 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the Traditional Pension and Combined Plans for the fiscal years ended June 30, 2012, 2011 and 2010 were \$251,939, \$227,905 and \$215,953, respectively; 89.33 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. There were no contributions to the member-directed plan for 2012.

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.

The Mahoning Valley Sanitary District

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 2012, 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. In fiscal year 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.

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, 2012, 2011 and 2010 were \$100,776, \$126,614 and \$139,734, respectively; 89.33 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

Note 8 – Interfund Transfers

Transfers are used to move revenues from the fund that statute of budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During fiscal year 2012, the bond fund transferred \$3,550,061 to the bond retirement fund to provide money for debt service payments.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Note 9 - 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%	14,365,905	2032
Solid Clarifiers/Recarbonation	2.00%	8,013,062	2033
Phase II Valve/Pipeline Replacement	3.82%	564,977	2017
Chemical Feed Improvements Design	3.20%	493,173	2018
Berlin Pump Station Improvements Design	2.00%	561,558	2018

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

	Balance 06/30/11	Additions	Reductions	Balance 06/30/12	Amounts Due in One Year
Business-Type Activities					
<i>Water Revenue Bonds</i>					
Series 2010, Refunding	\$26,255,000	\$0	(\$1,750,000)	\$24,505,000	\$3,730,000
Premium	218,300	0	(29,434)	188,866	0
Accounting Loss	(473,403)	0	63,829	(409,574)	0
Total Revenue Bonds	25,999,897	0	(1,715,605)	24,284,292	3,730,000
<i>EPA/OWDA Loans</i>					
Filter System Improvement	5,595,203	0	(305,411)	5,289,792	315,728
Niles Standpipe Replacement	1,101,345	0	(53,458)	1,047,887	55,209
Chemical Feed Building Roof	1,364,972	0	(66,254)	1,298,718	68,424
Administration & Filter Building Roof	267,132	0	(11,243)	255,889	11,752
WTP Lagoon Maintenance	1,171,143	0	(151,055)	1,020,088	156,173
Valve Replacement/Gate House	2,124,829	287,738	(110,692)	2,301,875	0
Solids Contact Clarifier/Recarbonation	1,390,080	3,695,295	0	5,085,375	0
Solid Clarifiers/Recarbonation	113,289	7,856,924	0	7,970,213	0
Phase II Valve/Pipeline Replacement	0	1,977	0	1,977	0
Chemical Feed Improvements Design	0	18,408	0	18,408	0
Berlin Pump Station Improvements Design	0	7,492	0	7,492	0
Total EPA/OWDA Loans	13,127,993	11,867,834	(698,113)	24,297,714	607,286
Total Business-Type Activities	\$39,127,890	\$11,867,834	(\$2,413,718)	\$48,582,006	\$4,337,286

The Mahoning Valley Sanitary District

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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.

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.

The District was approved for a \$2,488,513 Ohio Water Development Authority loan for the Valve Replacement/Gate House project. As of June 30, 2012, the District has drawn down all proceeds. Current year additions consisted of proceeds of \$287,738. 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 \$14,365,905 Ohio Water Development Authority loan for the Solids Contact Clarifier/Recarbonation project. As of June 30, 2012, the District has drawn down proceeds of \$4,994,053. Total current year additions of \$3,695,295 consisted of proceeds of \$3,610,326 and capitalized interest of \$84,969. 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 \$8,013,062 Ohio Water Development Authority loan for the Solid Clarifiers/Recarbonation project. As of June 30, 2012, the District has drawn down proceeds of \$7,908,444. Total current year additions of \$7,856,924 consisted of proceeds of \$7,795,242 and capitalized interest of \$61,682. This loan has not been finalized and therefore the repayment schedule is not included in the schedule of debt service payments.

The Mahoning Valley Sanitary District

Trumbull County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

The District was approved for a \$564,977 Ohio Water Development Authority loan for the Phase II Valve/Pipeline Replacement project. As of June 30, 2012, the District has drawn down proceeds of \$1,971. Total current year additions of \$1,977 consisted of proceeds of \$1,971 and capitalized interest of \$6. 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 \$493,173 Ohio Water Development Authority loan for the Chemical Feed Improvements Design project. As of June 30, 2012, the District has drawn down proceeds of \$18,389. Total current year additions of \$18,408 consisted of proceeds of \$18,389 and capitalized interest of \$19. 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 \$561,558 Ohio Water Development Authority loan for the Berlin Pump Station Improvements project. As of June 30, 2012, the District has drawn down proceeds of \$7,480. Total current year additions of \$7,492 consisted of proceeds of \$7,480 and capitalized interest of \$12. This loan has not been finalized and therefore the repayment schedule is not included in the schedule of debt service payments.

An analysis of the EPA/OWDA loan balances is as follows:

	EPA/OWDA Loans
Outstanding Principal at June 30, 2011	\$13,127,993
Current Fiscal Year Loan Proceeds	11,721,146
Current Fiscal Year Capitalized Interest	146,688
Current Fiscal Year Principal Payments	(698,113)
Outstanding Principal at June 30, 2012	<u>\$24,297,714</u>

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2012 are as follows:

	Business-Type Activities			
	Water Revenue		OWDA	
	Bonds		Loans	
	Principal	Interest	Principal	Interest
2013	\$3,730,000	\$593,625	\$607,286	\$294,136
2014	3,785,000	518,475	627,826	273,598
2015	3,865,000	430,269	649,060	252,362
2016	3,975,000	335,794	671,016	230,407
2017	4,065,000	222,112	693,715	207,708
2018 - 2022	5,085,000	153,675	3,034,347	716,179
2023 - 2027	0	0	2,617,846	208,062
2028	0	0	11,278	252
Total	<u>\$24,505,000</u>	<u>\$2,253,950</u>	<u>\$8,912,374</u>	<u>\$2,182,704</u>



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' 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 the financial statements of the business-type activities and each major fund of the Mahoning Valley Sanitary District, Trumbull County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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, providing an opinion 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*.

Mahoning Valley Sanitary District
Trumbull County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, audit committee, the Board, and others within the District. We intend it for no one other than these specified parties.

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

November 27, 2012



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 8, 2013**