



**Auditor of State  
Betty Montgomery**



**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

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## Auditor of State Betty Montgomery

### REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Directors:

We have audited the accompanying financial statements of the Mahoning Valley Sanitary District (the District) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the District as of June 30, 2004, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Mahoning Valley Sanitary District  
Trumbull County  
Report of Independent Accountants  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 16, 2004

**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	<b>Maintenance Fund</b>	<b>Bond Fund</b>	<b>Bond Retirement Bond</b>	<b>Totals (Memorandum Only)</b>
<b>Cash Receipts:</b>				
Water Revenues:				
City of Youngstown		\$ 5,977,087		\$ 5,977,087
City of Niles		1,422,628		1,422,628
Village of McDonald		150,537		150,537
Levy Receipts:				
City of Youngstown			\$ 1,330,860	1,330,860
City of Niles			396,408	396,408
Earnings on Investments	\$ 2,587	6,020	65,187	73,794
Timber Sales		137,582		137,582
Royalties		62,472		62,472
Capital Charge - Village of McDonald		87,392		87,392
Vulnerability Assessment Funds		37,000		37,000
Miscellaneous		3,264		3,264
Total Cash Receipts	2,587	7,883,982	1,792,455	9,679,024
<b>Cash Disbursements:</b>				
Personal Service	2,896,416	29,397		2,925,813
Supplies and Services	2,015,542	108,723		2,124,265
Capital Charge - Village of McDonald	87,392			87,392
Interest Rebate to Youngstown			15,582	15,582
Interest Rebate to Niles			4,642	4,642
Vulnerability Assessment		37,000		37,000
Annual Renewal and Replacement	27,086			27,086
Legal Services		7,917		7,917
EPA Plans Review		20,000		20,000
CT Design - Filtration System		109,602		109,602
Youngstown State University - Taste & Odor Study		13,947		13,947
Reduction In Reserve Requirements			82,097	82,097
Administrative Charges		3,500		3,500
Miscellaneous	23,038	1,622	996	25,656
Principal Payments:				
1998 Series Bonds			930,000	930,000
1999 Series Bonds			1,125,000	1,125,000
Interest Payments				
1998 Series Bonds			677,448	677,448
1999 Series Bonds			1,499,835	1,499,835
Total Cash Disbursements	5,049,474	331,708	4,335,600	9,716,782
Total Receipts Over/(Under) Disbursements	(5,046,887)	7,552,274	(2,543,145)	(37,758)
<b>Other Financing Receipts and (Disbursements):</b>				
Transfers-In	5,136,691	833,130	2,642,882	8,612,703
Transfers-Out		(8,598,106)	(14,597)	(8,612,703)
Refunds	18,000	65,000	191	83,191
Miscellaneous -Non Operating	(10,827)	(1,764)		(12,591)
Equipment - Non Operating Expense	(32,292)			(32,292)
Total Other Financing Receipts/(Disbursements)	5,111,572	(7,701,740)	2,628,476	38,308
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	64,685	(149,466)	85,331	550
Fund Cash Balances, July 1, 2003	932,864	1,426,566	8,823,212	11,182,642
<b>Fund Cash Balances, June 30</b>	<b>\$ 997,549</b>	<b>\$ 1,277,100</b>	<b>\$ 8,908,543</b>	<b>\$ 11,183,192</b>
Reserved for Encumbrances	\$ 87,793			\$ 87,793

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

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**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

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

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

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

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

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

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

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Cash and Investments**

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The Federal National Mortgage Association notes are valued at cost. The Monitor Treasury MKT FD VI is recorded at share values reported by the fund.

**D. Fund Accounting**

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

**1. Maintenance Fund**

This fund is required by Ohio Rev. 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 Rev. Code, is added to the maintenance fund of the District for the purpose of supplying water.

The Maintenance Fund is the operating fund of the Sanitary District. During the year, the District furthers segregates the Maintenance Fund into the Maintenance Fund Operations and the Maintenance Fund Operating Reserve Account.

**2. Bond Retirement Funds**

These funds are required by various bond covenants. They are used to account for accumulation of resources and for the payment of principal, interest, and related costs. Significant bond retirement funds are:

**1998 Series Bond Fund**

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

**1998 Series Bond Debt Service Reserve Fund**

The interest in this account is utilized to made interest and principle payments when due. This reduces the amount that is needed for the Bond Revenue Account.

**Rate Stabilization Account Fund**

This fund was created at the time of refunding of a prior debt. Monies are to be deposited and used by the District, as authorized and approved by the Board, for any lawful purpose.

**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**1999 Series Bond Fund**

This fund is used to account for accumulation of resources to be used solely and exclusively for the payment of the 1999 Series Bond's debt service charges to the extent amounts in the Debt Service Fund are insufficient.

**1999 Series Bond Debt Service Reserve Fund**

This fund must maintain a certain amount based on the 1999 Series Bond's trust agreement. The interest in this account is utilized to make interest and principle payments when due. This reduces the amount that is needed from the Bond Revenue Account.

**3. Bond Fund**

This fund is required by Section 6115.45, Ohio Rev. Code. The Bond Fund consists of the 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.

**Revenue Account Fund**

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

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

**E. Budgetary Process**

The Ohio Revised Code requires that the Maintenance Fund be Budgeted Annually. The Mahoning Valley Sanitary District prepares a budget for the Maintenance Fund and the Bond Fund.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund or function level of control, and appropriations may not exceed estimated resources. 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.

**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of July 1, 2003 through June 30, 2004 budgetary activity appears in Note 3.

**F. Major Source of Revenue**

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

**G. Property, Plant and Equipment**

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

**H. Unpaid Vacation and Sick Leave**

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

**I. Total Columns on the Financial Statements**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2004 was as follows:

**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

	<b>Carrying Amount</b>	<b>Market Value</b>
Demand Deposits:	\$400	
Sweep Account	5,870,822	
Total Deposits	5,871,222	
Investments:		
Federal National Mortgage Association	1,638,138	\$1,638,138
Treasury Market Fund VI	3,673,832	3,676,030
Total Investments	5,311,970	\$5,314,168
Total Deposits and Investments	\$11,183,192	

**Deposits:**

Deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized by the financial institution's public entity deposit pool.

The District uses a commercial bank to manage its overnight investments of available money in its checking accounts. These sweep accounts are "sweep-to-deposit" from a non-interest account to an interest bearing account. These transactions are bank deposits and are insured by the FDIC and collateralized by the financial institution's public entity deposit pool.

**Investments:**

The FNMA notes are held in book-entry form by the Federal Reserve, in the name of the District's financial institutions. The financial institutions maintain records identifying the District as owner of these securities. The Treasury Market Fund VI is held by the bank's trust department in the name of the District.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending June 30, 2004 follows:

2004 Budgeted vs. Actual Receipts

<i>Revenue</i>	Estimated Budget	Actual Receipts	Variance
Maintenance/Bond Funds	\$9,847,523	\$9,762,215	(\$ 85,308)

2004 Budgeted vs. Actual Budgetary Basis Expenditures

<i>Operating Expenses</i>	Appropriation Authority	Budgetary Expenditures	Variance
Maintenance/Bond Funds	\$9,981,483	\$ 9,761,665	\$219,818

**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**4. DEBT**

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

In May 2004 the Series 1994 Water Revenue Bonds were paid in full (\$27,100,386.25), leaving a \$4,069.45 balance in its Escrow Account. These remaining funds will be transfer to the District and used to make payment on the 1999 Water Revenue Bonds.

No new debt was issued for the period July 1, 2003 through June 30, 2004. Debt outstanding at June 30, 2004 was as follows:

	Principal -----	Interest Rate -----
General Obligation Bonds	\$ 16,380,000	5%
Water Revenue Bonds	<u>26,560,000</u>	6%
	<u>\$ 42,940,000</u>	

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

Proceeds from the water revenue bonds were used for:

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

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

**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**4. DEBT – (Continued)**

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

<u>Year Ending June 30:</u>	<u>General Obligation Bonds</u>	<u>Water Revenue Bonds</u>
2005	\$1,706,869	\$2,625,640
2006	1,702,569	2,622,063
2007	1,720,044	2,624,955
2008	1,684,871	2,621,663
2009	1,702,925	2,617,808
2010-2013	6,802,632	10,490,275
2014 - 2017	6,733,452	13,109,400
2018 - 2019		2,623,313
Total	<u>\$22,053,271</u>	<u>\$39,335,115</u>

**5. RETIREMENT SYSTEMS**

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

Contribution rates are also prescribed by the Ohio Revised Code. The employees' contribution of 8.5% of their gross salaries was picked up by the District in accordance with the terms of a collective bargaining agreement for July 1, 2003 through June 30, 2004.

The District also contributed an amount equal to 13.55% of participants' gross salaries. The District has also paid all contributions required through June 30, 2004.

**6. RISK MANAGEMENT**

The District has obtained commercial insurance for the following risks:

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

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

**7. SUBSEQUENT EVENTS**

The District's application for an Ohio Water Supply Revolving Loan Account was approved in formal proceedings on October 28, 2004. The total amount set aside by the Ohio EPA is \$7.3 million. The District plans to use the funds for filtration system improvements that the Ohio EPA has approved in 2004.

**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**8. LEGAL COMPLIANCE**

The District is currently a party to a legal proceeding which can have a material impact on the financial statements.





## **Auditor of State Betty Montgomery**

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

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

To the Board of Directors:

We have audited the accompanying financial statements of the Mahoning Valley Sanitary District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 16, 2004.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Mahoning Valley Sanitary District  
Trumbull County  
Report of Independent Accountants on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 16, 2004



**Auditor of State  
Betty Montgomery**

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800-282-0370

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**MAHONING VALLEY SANITARY DISTRICT  
TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 28, 2004**