



**Auditor of State
Betty Montgomery**

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Youngstown
Mahoning County
26 South Phelps St.
Youngstown, Ohio 44503

To Members of Council:

We have audited the accompanying general-purpose financial statements of the City of Youngstown, Mahoning County, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of the Western Reserve Transit Authority (WRTA), the discretely presented component unit of the City. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Youngstown, Mahoning County, as of December 31, 2002, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City is experiencing certain financial difficulties. Those difficulties and management's responses to those difficulties are described in Note 21.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2004 on our consideration of the City'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.

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The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 22, 2004

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CITY OF YOUNGSTOWN
MAHONING COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT
DECEMBER 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets:				
Equity in pooled cash and cash equivalents	-	\$ 2,590,896	-	\$ 1,596,187
Cash and cash equivalents in segregated accounts	-	50,710	-	-
Cash and cash equivalents with fiscal and escrow agents	-	-	731,508	-
Receivables (net of allowance for uncollectibles):				
Income taxes	1,847,327	688,219	-	229,499
Property taxes	-	-	4,651,902	-
Accounts	504,023	-	-	2,625
Interfund loans	-	-	-	1,734,819
Special assessments	29,945	1,792,705	147,236	-
Accrued interest	1,533	-	-	-
Due from other funds	61,348	4,273	-	20,153
Due from other governments	2,027,764	15,095,792	115,532	2,213,567
Materials and supplies inventory	14,489	306,859	-	-
Deferred charges	-	-	-	-
Notes receivable	-	4,528,731	-	-
Prepayments	-	-	-	-
Other assets	-	-	-	-
Restricted assets:				
Cash and cash equivalents	-	-	-	-
Due from other governments	-	-	-	-
Fixed assets (net of accumulated depreciation where applicable)	-	-	-	-
Other Debits:				
Amount available in debt service fund for retirement of general obligation bonds	-	-	-	-
Amount to be provided from general government resources	-	-	-	-
Total assets and other debits	<u>\$ 4,486,429</u>	<u>\$ 25,058,185</u>	<u>\$ 5,646,178</u>	<u>\$ 5,796,850</u>

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

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Unit	Total Reporting Entity (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations			
Enterprise	Agency					
\$ 1,436,235	\$ 1,218,812	\$ -	\$ -	\$ 6,842,130	\$ -	\$ 6,842,130
-	269,752	-	-	320,462	5,241,268	5,561,730
-	13,874	-	-	745,382	-	745,382
-	-	-	-	2,765,045	-	2,765,045
-	-	-	-	4,651,902	2,667,974	7,319,876
6,503,750	983,115	-	-	7,993,513	24,063	8,017,576
2,839,794	-	-	-	4,574,613	-	4,574,613
127	-	-	-	1,970,013	-	1,970,013
-	-	-	-	1,533	-	1,533
-	-	-	-	85,774	-	85,774
-	-	-	-	19,452,655	1,786,389	21,239,044
1,523,484	-	-	-	1,844,832	179,537	2,024,369
43,439	-	-	-	43,439	-	43,439
-	-	-	-	4,528,731	-	4,528,731
-	-	-	-	-	13,172	13,172
-	-	-	-	-	11,000	11,000
-	-	-	-	-	13,181	13,181
-	-	-	-	-	184,824	184,824
43,785,102	-	33,932,527	-	77,717,629	14,855,500	92,573,129
-	-	-	472,774	472,774	-	472,774
-	-	-	36,513,716	36,513,716	-	36,513,716
<u>\$ 56,131,931</u>	<u>\$ 2,485,553</u>	<u>\$ 33,932,527</u>	<u>\$ 36,986,490</u>	<u>\$ 170,524,143</u>	<u>\$ 24,976,908</u>	<u>\$ 195,501,051</u>

CITY OF YOUNGSTOWN

COMBINED BALANCE SHEET (CONTINUED)
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT
DECEMBER 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Liabilities, equity and other credits</u>				
Liabilities:				
Accounts payable	\$ 89,185	\$ 529,485	\$ -	\$ 20,414
Contracts payable	-	40,249	-	529,068
Accrued wages and benefits.	300,505	1,145,656	-	-
Compensated absences payable.	29,882	132,105	-	-
Interfund loans payable	1,953,264	730,469	258,734	832,999
Due to other funds	-	-	-	-
Due to other governments	386,136	1,839,311	-	-
Deferred revenue	1,226,519	15,186,569	4,914,670	2,213,567
Undistributed monies	-	-	-	-
Deposits held and due to others	-	-	-	-
Other liabilities	-	-	-	-
Accrued interest payable	-	-	-	7,940
Notes payable.	-	-	-	5,855,000
Payable from restricted assets:				
Accounts payable	-	-	-	-
HUD Section 108 loans payable	-	-	-	-
OWDA loans payable.	-	-	-	-
General obligation bonds payable	-	-	-	-
Industrial development revenue bonds payable.	-	-	-	-
Total liabilities	3,985,491	19,603,844	5,173,404	9,458,988
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital.	-	-	-	-
Retained earnings:				
Unreserved.	-	-	-	-
Fund balances (deficits):				
Reserved for encumbrances	48,691	179,406	-	886,093
Reserved for materials and supplies inventory.	14,489	306,859	-	-
Reserved for notes receivable	-	4,528,731	-	-
Reserved for debt service	-	-	472,774	-
Unreserved - undesignated	437,758	439,345	-	(4,548,231)
Total equity and other credits.	500,938	5,454,341	472,774	(3,662,138)
Total liabilities, equity and other credits	\$ 4,486,429	\$ 25,058,185	\$ 5,646,178	\$ 5,796,850

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Unit	Total Reporting Entity (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations			
Enterprise	Agency					
\$ 827,614	\$ -	\$ -	\$ -	\$ 1,466,698	\$ 348,755	\$ 1,815,453
121,127	-	-	-	690,444	-	690,444
351,990	-	-	-	1,798,151	703,580	2,501,731
1,298,026	-	-	6,694,408	8,154,421	-	8,154,421
799,147	-	-	-	4,574,613	-	4,574,613
-	85,774	-	-	85,774	-	85,774
725,458	1,827,412	-	1,707,132	6,485,449	24,737	6,510,186
-	-	-	-	23,541,325	2,667,974	26,209,299
-	13,874	-	-	13,874	-	13,874
-	558,493	-	-	558,493	-	558,493
-	-	-	-	-	170,916	170,916
302,162	-	-	-	310,102	-	310,102
-	-	-	600,000	6,455,000	-	6,455,000
-	-	-	-	-	32,702	32,702
-	-	-	8,009,950	8,009,950	-	8,009,950
6,139,006	-	-	-	6,139,006	-	6,139,006
1,473,290	-	-	19,255,000	20,728,290	-	20,728,290
-	-	-	720,000	720,000	-	720,000
<u>12,037,820</u>	<u>2,485,553</u>	<u>-</u>	<u>36,986,490</u>	<u>89,731,590</u>	<u>3,948,664</u>	<u>93,680,254</u>
-	-	33,932,527	-	33,932,527	-	33,932,527
34,511,557	-	-	-	34,511,557	9,442,851	43,954,408
9,582,554	-	-	-	9,582,554	11,585,393	21,167,947
-	-	-	-	1,114,190	-	1,114,190
-	-	-	-	321,348	-	321,348
-	-	-	-	4,528,731	-	4,528,731
-	-	-	-	472,774	-	472,774
				<u>(3,671,128)</u>	<u>-</u>	<u>(3,671,128)</u>
<u>44,094,111</u>	<u>-</u>	<u>33,932,527</u>	<u>-</u>	<u>80,792,553</u>	<u>21,028,244</u>	<u>101,820,797</u>
<u>\$ 56,131,931</u>	<u>\$ 2,485,553</u>	<u>\$ 33,932,527</u>	<u>\$ 36,986,490</u>	<u>\$ 170,524,143</u>	<u>\$ 24,976,908</u>	<u>\$ 195,501,051</u>

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Municipal income tax	\$ 21,598,316	\$ 8,042,193	\$ -	\$ 2,680,926	\$ 32,321,435
Property and other taxes	-	-	1,935,562	-	1,935,562
Charges for services	3,140,703	245,074	-	89,766	3,475,543
Licenses, permits and fees	559,443	59,937	-	-	619,380
Fines and forfeitures	671,927	67,943	-	265,155	1,005,025
Intergovernmental	4,536,964	11,694,497	431,199	1,074,124	17,736,784
Special assessments	-	1,473	8,977	-	10,450
Contributions and donations	16,610	2,100	-	32,000	50,710
Investment income	130,507	151,854	6,985	1,745	291,091
Rental income	344,966	58,013	-	37,865	440,844
Franchise fees	558,112	-	-	-	558,112
Other	353,068	329,983	-	488	683,539
Total revenues	31,910,616	20,653,067	2,382,723	4,182,069	59,128,475
Expenditures:					
Current operations:					
General government	10,527,729	-	101,919	-	10,629,648
Security of persons and property	458,684	27,704,136	-	-	28,162,820
Public health and welfare	1,211,802	1,036,177	-	-	2,247,979
Transportation	982,809	5,955,619	-	-	6,938,428
Community environment	646,321	4,778,955	-	-	5,425,276
Basic utility services	2,093,124	-	-	-	2,093,124
Leisure time activity	82,371	2,525,963	-	-	2,608,334
Capital outlay	-	-	-	4,594,917	4,594,917
Debt service:					
Principal retirement	-	1,055,000	1,260,000	600,000	2,915,000
Interest and fiscal charges	-	654,762	1,305,442	51,847	2,012,051
Total expenditures	16,002,840	43,710,612	2,667,361	5,246,764	67,627,577
Excess (deficiency) of revenues over (under) expenditures	15,907,776	(23,057,545)	(284,638)	(1,064,695)	(8,499,102)
Other financing sources (uses):					
Proceeds of notes	-	-	-	600,000	600,000
Proceeds from sale of fixed assets	2,068	41,921	-	-	43,989
Operating transfers in	479,002	22,462,085	242,000	3,240,734	26,423,821
Operating transfers out	(20,066,986)	(2,470,623)	(97,500)	(2,500,000)	(25,135,109)
Total other financing sources (uses)	(19,585,916)	20,033,383	144,500	1,340,734	1,932,701
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(3,678,140)	(3,024,162)	(140,138)	276,039	(6,566,401)
Fund balances (deficit), January 1	4,194,483	8,535,386	612,912	(3,938,177)	9,404,604
Decrease in reserve for inventory	(15,405)	(56,883)	-	-	(72,288)
Fund balances (deficit), December 31.	\$ 500,938	\$ 5,454,341	\$ 472,774	\$ (3,662,138)	\$ 2,765,915

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

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CITY OF YOUNGSTOWN, OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

	General			Special Revenue	
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual
Revenues:					
Municipal income taxes	\$ 22,086,003	\$ 21,829,892	\$ (256,111)	\$ 7,948,978	\$ 8,133,524
Property and other taxes	-	-	-	-	-
Charges for services	3,326,907	3,288,328	(38,579)	262,876	303,506
Licenses, permits and fees	706,204	698,015	(8,189)	6,564	6,470
Fines and forfeitures.	681,493	673,590	(7,903)	20,855	61,900
Intergovernmental	4,595,098	4,541,813	(53,285)	12,768,412	11,679,824
Special assessments	-	-	-	633,624	567,920
Contributions and donations.	16,805	16,610	(195)	1,500	2,325
Investment income	182,510	180,394	(2,116)	138,824	119,966
Rental income	349,013	344,966	(4,047)	25,946	58,013
Franchise fees	564,660	558,112	(6,548)	11,952	-
Other.	209,412	329,453	120,041	352,263	388,023
Total revenues	<u>32,718,105</u>	<u>32,461,173</u>	<u>(256,932)</u>	<u>22,171,794</u>	<u>21,321,471</u>
Expenditures:					
Current:					
General government	10,276,951	10,474,697	(197,746)	-	-
Security of persons and property.	481,150	502,232	(21,082)	26,763,458	27,275,365
Public health and welfare	1,144,800	1,213,940	(69,140)	1,776,504	1,065,711
Transportation	893,250	950,514	(57,264)	5,737,500	5,818,372
Community environment.	714,100	742,708	(28,608)	16,433,372	5,245,710
Basic utility services.	2,316,800	2,123,304	193,496	-	-
Leisure time activity.	80,560	83,628	(3,068)	3,085,448	2,492,453
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	1,055,000	1,055,000
Interest and fiscal charges.	-	-	-	1,144,827	654,762
Total expenditures	<u>15,907,611</u>	<u>16,091,023</u>	<u>(183,412)</u>	<u>55,996,109</u>	<u>43,607,373</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,810,494</u>	<u>16,370,150</u>	<u>(440,344)</u>	<u>(33,824,315)</u>	<u>(22,285,902)</u>
Other financing sources (uses):					
Proceeds of notes	-	-	-	-	-
Proceeds from sale of fixed assets.	2,092	2,068	(24)	30,477	41,921
Operating transfers in	495,978	479,002	(16,976)	21,313,354	22,462,085
Operating transfers out	(20,066,986)	(20,066,986)	-	(2,783,303)	(2,780,812)
Total other financing sources (uses).	<u>(19,568,916)</u>	<u>(19,585,916)</u>	<u>(17,000)</u>	<u>18,560,528</u>	<u>19,723,194</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses).	<u>(2,758,422)</u>	<u>(3,215,766)</u>	<u>(457,344)</u>	<u>(15,263,787)</u>	<u>(2,562,708)</u>
Fund balance, January 1	<u>725,299</u>	<u>725,299</u>	<u>-</u>	<u>3,259,925</u>	<u>3,259,925</u>
Prior year encumbrances appropriated	<u>479,050</u>	<u>479,050</u>	<u>-</u>	<u>966,878</u>	<u>966,878</u>
Fund balance, December 31	<u>\$ (1,554,073)</u>	<u>\$ (2,011,417)</u>	<u>\$ (457,344)</u>	<u>\$ (11,036,984)</u>	<u>\$ 1,664,095</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Debt Service				Capital Projects			Total (Memorandum Only)		
Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$ 184,546	\$ -	\$ -	\$ -	\$ 1,718,893	\$ 2,711,173	\$ 992,280	\$ 31,753,874	\$ 32,674,589	\$ 920,715
-	1,910,404	1,935,562	25,158	-	-	-	1,910,404	1,935,562	25,158
40,630	-	-	-	319,567	89,766	(229,801)	3,909,350	3,681,600	(227,750)
(94)	-	-	-	-	-	-	712,768	704,485	(8,283)
41,045	-	-	-	230,000	263,940	33,940	932,348	999,430	67,082
(1,088,588)	436,550	442,299	5,749	2,439,500	1,080,083	(1,359,417)	20,239,560	17,744,019	(2,495,541)
(65,704)	8,860	8,977	117	-	-	-	642,484	576,897	(65,587)
825	-	-	-	58,522	32,000	(26,522)	76,827	50,935	(25,892)
(18,858)	6,894	6,985	91	6,212	1,745	(4,467)	334,440	309,090	(25,350)
32,067	-	-	-	70,000	35,240	(34,760)	444,959	438,219	(6,740)
(11,952)	-	-	-	-	-	-	576,612	558,112	(18,500)
35,760	-	-	-	1,755	488	(1,267)	563,430	717,964	154,534
(850,323)	2,362,708	2,393,823	31,115	4,844,449	4,214,435	(630,014)	62,097,056	60,390,902	(1,706,154)
-	56,000	101,865	(45,865)	-	-	-	10,332,951	10,576,562	(243,611)
(511,907)	-	-	-	-	-	-	27,244,608	27,777,597	(532,989)
710,793	-	-	-	-	-	-	2,921,304	2,279,651	641,653
(80,872)	-	-	-	-	-	-	6,630,750	6,768,886	(138,136)
11,187,662	-	-	-	-	-	-	17,147,472	5,988,418	11,159,054
-	-	-	-	-	-	-	2,316,800	2,123,304	193,496
592,995	-	-	-	-	-	-	3,166,008	2,576,081	589,927
-	-	-	-	35,543,609	5,302,297	30,241,312	35,543,609	5,302,297	30,241,312
-	1,260,000	1,305,000	(45,000)	-	6,455,000	(6,455,000)	2,315,000	8,815,000	(6,500,000)
490,065	1,370,390	1,357,942	12,448	417	417	-	2,515,634	2,013,121	502,513
12,388,736	2,686,390	2,764,807	(78,417)	35,544,026	11,757,714	23,786,312	110,134,136	74,220,917	35,913,219
11,538,413	(323,682)	(370,984)	(47,302)	(30,699,577)	(7,543,279)	23,156,298	(48,037,080)	(13,830,015)	34,207,065
-	-	-	-	-	6,455,000	6,455,000	-	6,455,000	6,455,000
11,444	-	-	-	-	-	-	32,569	43,989	11,420
1,148,731	238,854	242,000	3,146	4,428,155	3,143,234	(1,284,921)	26,476,341	26,326,321	(150,020)
2,491	-	-	-	(2,500,000)	(2,500,000)	-	(25,350,289)	(25,347,798)	2,491
1,162,666	238,854	242,000	3,146	1,928,155	7,098,234	5,170,079	1,158,621	7,477,512	6,318,891
12,701,079	(84,828)	(128,984)	(44,156)	(28,771,422)	(445,045)	28,326,377	(46,878,459)	(6,352,503)	40,525,956
-	20,250	20,250	-	1,448,302	1,448,302	-	5,453,776	5,453,776	-
-	-	-	-	452,999	452,999	-	1,898,927	1,898,927	-
\$ 12,701,079	\$ (64,578)	\$ (108,734)	\$ (44,156)	\$ (26,870,121)	\$ 1,456,256	\$ 28,326,377	\$ (39,525,756)	\$ 1,000,200	\$ 40,525,956

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY
PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Type	Component Unit	Total (Memorandum Only)
	Enterprise		
Operating revenues:			
Charges for services	\$ 29,056,552	\$ 771,144	\$ 29,827,696
Other operating revenues	201,990	-	201,990
Total operating revenues	<u>29,258,542</u>	<u>771,144</u>	<u>30,029,686</u>
Operating expenses:			
Personal services	11,528,649	4,635,389	16,164,038
Contractual services	5,741,323	1,438,903	7,180,226
Materials and supplies	9,087,720	657,753	9,745,473
Depreciation	2,564,705	1,599,457	4,164,162
Other operating expenses	93,170	142,951	236,121
Total operating expenses	<u>29,015,567</u>	<u>8,474,453</u>	<u>37,490,020</u>
Operating income (loss)	<u>242,975</u>	<u>(7,703,309)</u>	<u>(7,460,334)</u>
Nonoperating revenues (expenses):			
Property taxes	-	2,627,487	2,627,487
Interest revenue	4,897	125,168	130,065
Loss on disposal of fixed assets	(36,654)	48,638	11,984
Grants	-	2,941,264	2,941,264
Interest expense and fiscal charges	(721,530)	-	(721,530)
Other nonoperating revenues	-	317,470	317,470
Total nonoperating revenues (expenses)	<u>(753,287)</u>	<u>6,060,027</u>	<u>5,306,740</u>
Net loss before operating transfers	<u>(510,312)</u>	<u>(1,643,282)</u>	<u>(2,153,594)</u>
Operating transfers out	(1,288,712)	-	(1,288,712)
Net loss before capital contributions	<u>(1,799,024)</u>	<u>(1,643,282)</u>	<u>(3,442,306)</u>
Capital contributions	202,129	322,162	524,291
Net loss	<u>(1,596,895)</u>	<u>(1,321,120)</u>	<u>(2,918,015)</u>
Depreciation on fixed assets acquired by contributed capital	-	1,538,354	1,538,354
Retained earnings, January 1	<u>11,179,449</u>	<u>11,368,159</u>	<u>22,547,608</u>
Retained earnings, December 31	<u>9,582,554</u>	<u>11,585,393</u>	<u>21,167,947</u>
Contributed capital, January 1	34,511,557	10,981,205	45,492,762
Depreciation on fixed assets acquired by contributed capital	-	(1,538,354)	(1,538,354)
Contributed capital, December 31	<u>34,511,557</u>	<u>9,442,851</u>	<u>43,954,408</u>
Total fund equity, December 31	<u>\$ 44,094,111</u>	<u>\$ 21,028,244</u>	<u>\$ 65,122,355</u>

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

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CITY OF YOUNGSTOWN
MAHONING COUNTY

COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Proprietary Fund Type</u>		Total (Memorandum Only)
	<u>Enterprise</u>	<u>Component Unit</u>	
Cash flows from operating activities:			
Cash received from customers	\$ 28,437,425	\$ 791,710	\$ 29,229,135
Cash received from other operations	201,863	-	201,863
Cash payments for employee services and benefits.	(11,239,399)	(2,980,045)	(14,219,444)
Cash payments for contractual services	(5,600,645)	-	(5,600,645)
Cash payments to suppliers for goods	(9,366,726)	(4,036,728)	(13,403,454)
Cash payments for other expenses	(91,891)	-	(91,891)
Net cash provided by (used in) operating activities	<u>2,340,627</u>	<u>(6,225,063)</u>	<u>(3,884,436)</u>
Cash flows from noncapital financing activities:			
Cash used in repayment of interfund loans	310,189	-	310,189
Transfers out to other funds	(1,288,712)	-	(1,288,712)
Operating grants	-	3,152,449	3,152,449
Property taxes	-	2,627,487	2,627,487
Net cash provided by (used in) noncapital financing activities	<u>(978,523)</u>	<u>5,779,936</u>	<u>4,801,413</u>
Cash flows from capital and related financing activities:			
Capital grants	-	938,231	938,231
Capital contributions	202,129	-	202,129
Acquisition of capital assets	(1,639,921)	(476,060)	(2,115,981)
Cash received from other funds	799,147	-	799,147
Cash payments to other funds	(2,839,794)	-	(2,839,794)
Proceeds of sale of fixed assets.	10,512	52,182	62,694
Principal payments - general obligation bonds	(100,000)	-	(100,000)
Interest payments - general obligation bonds.	(77,682)	-	(77,682)
Principal payments - OWDA loans.	(659,731)	-	(659,731)
Interest payments - OWDA loans	(318,903)	-	(318,903)
Principal payments - revenue bonds	(120,000)	-	(120,000)
Interest payments - revenue bonds	(6,900)	-	(6,900)
Net cash provided by (used in) capital and related financing activities	<u>(4,751,143)</u>	<u>514,353</u>	<u>(4,236,790)</u>
Cash flows from investing activities:			
Interest received	4,897	125,168	130,065
Net cash provided by investing activities	<u>4,897</u>	<u>125,168</u>	<u>130,065</u>
Net increase (decrease) in cash and cash equivalents	(3,384,142)	194,394	(3,189,748)
Cash and cash equivalents at January 1	<u>4,820,377</u>	<u>5,060,055</u>	<u>9,880,432</u>
Cash and cash equivalents at December 31.	<u>\$ 1,436,235</u>	<u>\$ 5,254,449</u>	<u>\$ 6,690,684</u>

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**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2002
(CONTINUED)**

	<u>Proprietary Fund Type</u>		<u>Total (Memorandum Only)</u>
	<u>Enterprise Fund</u>	<u>Component Unit</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 242,975	\$ (7,703,309)	\$ (7,460,334)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	2,564,705	1,599,457	4,164,162
Changes in assets and liabilities:			
Increase in materials and supplies inventory	(51,775)	(8,857)	(60,632)
(Increase) decrease in accounts receivable	(619,271)	20,566	(598,705)
Increase in prepaid expenses	-	(3,767)	(3,767)
Decrease in special assessments receivable	17	-	17
Decrease in accounts payable	(73,482)	(30,113)	(103,595)
Decrease in contracts payable	(8,217)	-	(8,217)
Increase (decrease) in accrued wages and benefits	32,372	(98,821)	(66,449)
Increase in compensated absences payable	43,368	-	43,368
Decrease in other payables	-	(219)	(219)
Increase in due to other governments	209,935	-	209,935
Net cash provided by (used in) operating activities	<u>\$ 2,340,627</u>	<u>\$ (6,225,063)</u>	<u>\$ (3,884,436)</u>

The Notes to the general purpose financial statements are an integral part of this statement.

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**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

1. REPORTING ENTITY

The City of Youngstown, Ohio (the "City") is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The current Charter, which provides for a mayor-council form of government, was adopted May 15, 1923. The mayor is elected to a four-year term and seven council members are each elected for a two-year term.

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments and organizations making up the City (the primary government) and its potential component units consistent with Governmental Accounting Standards Board Statement 14, "The Financial Reporting Entity."

The primary government comprises all activities and services which are not legally separate from the City. The City provides various services including a municipal court, public safety (police and fire), highways and streets, parks and recreation, public improvements, community development (planning and zoning), public health, sewers, sanitation, parking, and general administrative and legislative services. The operation of each of these activities is directly controlled by Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provided financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations which are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes.

DISCRETELY PRESENTED COMPONENT UNIT

The component unit columns in the combined financial statements identifies the financial data of the City's component unit, the Western Reserve Transit Authority. It is reported separately to emphasize that it is legally separate from the City.

Western Reserve Transit Authority

The Western Reserve Transit Authority (WRTA) is a legally separate entity created pursuant to Sections 306.30 through 306.71 of the Ohio Revised Code for the purpose of providing public transportation in the greater Youngstown area. The five-member Board of Trustees is appointed by the City (four by the Mayor and one by City Council). Potential exists for the City to subsidize operating expenses, although this has not occurred. Based on the potential for the WRTA to impose financial burdens on the City, the WRTA is reflected as a component unit of the City. Separately issued financial statements can be obtained from the Western Reserve Transit Authority, 604 Mahoning Avenue, Youngstown, Ohio 44446.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. REPORTING ENTITY - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Mahoning County Drug Task Force

The City's police department participates in the Mahoning County Drug Task Force (the Force) which is jointly governed by its thirteen participants: nine local police departments and four federal law enforcement agencies. Each participant has one representative on the Board of Control. Each participant's control over the operation of the Force is limited to its representation on the board. The Force uses the talents and resources of the participants to combat the trafficking of illicit narcotics. Continued existence of the Force is not dependent on the City's continued participation. Funding is provided by the Governor's Office of Criminal Justice Services and forfeitures and fines. None of the participants made financial contributions in 2002. Financial information can be obtained from the Mahoning County Drug Task Force, 104 Lisbon Street, Canfield, Ohio 44406.

Eastgate Development and Transportation Agency

The Eastgate Development and Transportation Agency (EDATA) is a jointly governed organization among 27 local governments in Ashtabula, Columbiana, Mahoning and Trumbull counties. The Board is comprised of one representative from each city, village, county or governmental agency and one additional representative for each 20,000 population. The City of Youngstown currently has five representatives on the 48-member board. Each participant's control over the operation of EDATA is limited to its representation on the board. EDATA develops and reviews plans for regional growth and development and aids in coordinating plans among local governments. Continued existence of EDATA is not dependent on the City's continued participation. In 2002, the City contributed \$28,709 which represents 12 percent of total contributions. Complete financial statements can be obtained from the Eastgate Development and Transportation Agency, 25 East Boardman Street, Youngstown, Ohio 44503.

Youngstown Metropolitan Housing Authority

The Youngstown Metropolitan Housing Authority (YMHA) is a jointly governed organization among four local governments created to provide subsidized public housing. The City appoints two members of the five-member board. Each participant's control over the operation of YMHA is limited to its representation on the board. Continued existence of YMHA is not dependent on the City's continued participation. The City does not make any financial contributions to YMHA. Funding is received through state and federal subsidies and grants. Complete financial statements can be obtained from the Youngstown Metropolitan Housing Authority, 131 W. Boardman Street, Youngstown, Ohio 44503.

Metropolitan Fire Investigation Unit

The Metropolitan Fire Investigation Unit (MFIU) is a jointly governed organization among eight local governments. The Board of Governors is comprised of one representative from each participating government. The MFIU was created to investigate major fires and explosions of unknown or suspicious cause and to aid in the prosecution of those persons or groups responsible. Each participant's control over the operation of MFIU is limited to its representation on the board. Continued existence of MFIU is not dependent on the City's continued participation. The City does not make any financial contributions to MFIU. Funding is received through insurance companies and donations. Financial information can be obtained from the Metropolitan Fire Investigation Unit, 3025 South Avenue, Youngstown, Ohio 44502.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. REPORTING ENTITY - (Continued)

The City is also associated with the Community Improvement Corporation (CIC). The CIC is a not-for-profit corporation which was formed in 1988. The 20 member board, which consists of 8 members appointed by the City and 12 local businessmen, promotes industrial and economic development within the central area of the City. The CIC has been excluded from the reporting entity.

Information in the notes to the general purpose financial statements relates in general to the primary government. Information relating to the operations of the WRTA (component unit) is specifically identified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Funds Types - Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

General Fund - The general fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of Youngstown and/or the general laws of Ohio.

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type - Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type:

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Type - Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. There are two types of fiduciary funds, trust and agency. The City has no trust funds.

Agency Funds - Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups - To make a clear distinction between fixed assets related to a specific fund and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - The general fixed assets account group is used to account for fixed assets of the City other than those accounted for in the proprietary funds.

General Long-term Obligations Account Group - The general long-term obligations account group is used to account for all long-term obligations of the City, except those accounted for in the proprietary funds.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund types operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary fund.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 6). Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: income tax, state-levied locally shared taxes, interest, grants fees and rentals.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than the agency funds, are legally required to be budgeted and appropriated. Budgetary information for the WRTA (component unit) is not reported because it is not included in the entity for which the "appropriated budget" is adopted and does not maintain its own budgetary information. The legal level of budgetary control is at the object level within each department. Any budgetary modifications at this level may only be made by resolution of City Council.

Tax Budget: Ohio Revised Code Section 5705.28 requires the Mayor to present the annual operating budget for the following fiscal year to City Council for consideration and passage at the first Council meeting in July. This section requires the adopted budget to be submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. The City obtained a waiver as provided for by Ohio Revised Code Sec. 5705.281, in which they did not have to adopt an operating budget nor submit the operating budget to the County Auditor.

Estimated Resources: The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Appropriations: A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of Council. The Director of Finance is authorized to transfer appropriations between line items within an object of any department. During the year, several supplemental appropriation measures were passed. None of these supplemental appropriations had any significant affect on the original appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by Council.

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations: At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including the proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During 2002, investments were limited to repurchase agreements, which are reported at cost. The City also invests in Star Bank Cash Management Fund which is a money market mutual fund. This mutual fund is reported at fair value which is determined by the fund's December 31, 2002 share price.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2002 amounted to \$130,507 which includes \$130,307 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest-bearing depository accounts and short-term investments in certificates of deposit are presented on the combined balance sheet as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City's treasury.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The City utilizes a financial institution to service general obligation bonded debt as principal and interest come due and a trustee (FIRSTAR) to collect revenue and retire principal and interest on its industrial development revenue bonds. The balances of these accounts are presented on the combined balance sheet as "Cash and Cash Equivalents with Fiscal and Escrow Agents" and represent deposits or short-term investments with an original maturity of three months or less.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments not purchased from the pool with an original maturity of more than three months are reported as investments.

E. Inventory of Supplies

Primary Government - Inventory is valued at cost on a first-in, first-out basis. At December 31, 2002, the general, special revenue, and proprietary funds maintained the only significant inventory. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. The reserve for inventory indicates that a portion of the fund balance is not available for future expenditures.

Component Unit - Inventory is stated at the lower of cost (average cost method) or market. Inventory generally consists of maintenance parts and supplies for rolling stock and other transportation equipment.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Restricted Assets

Restricted assets of the component unit consist of monies and other resources which are legally restricted for capital acquisition and construction.

H. Fixed Assets

Primary Government

The fixed asset values were initially determined at December 31, 1992, except for land which was valued as of December 31, 2001, by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. For certain fixed assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at fair market value on the date donated.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency are capitalized at cost in the general fixed assets account group or in the enterprise funds.

General Fixed Assets - General fixed assets (fixed assets used in governmental fund type operations) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Assets in the general fixed assets account group are not depreciated.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized or reported, as these assets are immovable and of value only to the City.

Proprietary Fund Fixed Assets - Fixed assets associated with the enterprise funds are accounted for in those funds. Depreciation is expensed and closed to unreserved retained earnings at year end. Depreciation is calculated using the straight-line method over the following estimated useful lives:

	<u>Estimated Lives</u>
Buildings	50 Years
Improvements other than buildings	20 Years
Machinery and equipment	5 - 30 Years
Infrastructure	65 Years
Vehicles	8 Years

Interest is capitalized on proprietary fund assets acquired with tax exempt borrowing. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2002, there were no capitalized interest costs incurred on construction projects in the proprietary funds.

Component Unit Fixed Assets

Property, facilities and equipment are stated at historical cost. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related properties. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Estimated Lives</u>
Buildings and improvements	20 - 35 Years
Transportation equipment	7 - 12 Years
Other equipment	3 - 15 Years

Depreciation recognized on assets acquired or constructed through grants externally restricted for capital acquisitions is closed to contributed capital.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability for the City using the vesting method. A liability is accrued for thirty-five percent of accumulated unused sick leave for all employees since the employees are entitled to that amount if they leave the City's employment for any reason. This item is discussed further in Note 15 to the general purpose financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of unpaid compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. In general, payments made more than two months after year-end are considered not to have been paid using current available financial resources. The bond anticipation note that was rolled over prior to the issuance of the financial statements has been reported in the general long-term obligations account group. Bonds, police and firemen's liability and long-term loans are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

K. Contributed Capital

Contributed capital represents donations by developers, contributions made by other City funds, and assets whose construction was financed by EPA grants. These assets are recorded at their fair market value on the date contributed and are not subject to repayment.

L. Reserves of Fund Equity

Reserves of fund equity in governmental funds indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for encumbrances, inventory of supplies and materials, notes receivable and debt service.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund, and a reduction of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Interfund Assets and Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" and "due to other funds". Short-term interfund loans are classified as "interfund receivables/payables."

O. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Total Columns - Memorandum Only

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data. When the title of a statement indicates that a component unit is included, two total columns may be presented. The first is captioned primary government to indicate that only those activities that comprise the City's legal entity have been included. The second is captioned reporting entity and includes the activity and operations of the City's legally separate discretely presented component unit. The total column on statements which do not include a component unit have no additional caption.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits (GAAP Basis)

The following funds had deficit fund balances at December 31, 2002:

Special Revenue Funds

SCMR Fund	\$ 189,755
Police Levy	780,679
Fire Levy	1,014,073
Revolving Loan	750,000
Litter Control	89,190
Juvenile Diversion Grant	45,343

Capital Projects Funds

Industrial Land Acquisition	4,312,573
Convocation Center	12,189
Wick Building	8,143
Capital Projects Public Works	1,184,452
Demolition	142,286

The special revenue funds and the Convocation Center, Wick Building, Capital Projects Public Works, and Demolition capital projects funds deficits are caused by expenditures being higher than revenues and the recognition of expenditures on the modified accrual basis of accounting which are substantially greater than expenditures recognized on a cash basis. The general fund is liable for any deficits in these funds and provides operating transfers when cash is required, not when accruals occur.

The Industrial Land Acquisition capital projects fund deficit is the result of the issuance of short-term bond anticipation notes which are used to finance the project until the bonds are issued. Once bonds are issued and the liability is reported in the general long-term obligations account group rather than in the funds, the deficit will be eliminated.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Compliance

The following funds had appropriations in excess of estimated resources and carryover balances contrary to Section 5705.39, Ohio Revised Code:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund	#####	\$35,974,597	\$ 1,554,073
<u>Special Revenue Funds</u>			
Parks and Recreation	2,871,518	3,477,696	606,178
Police Levy	15,632,033	15,772,136	140,103
Fire Levy	10,065,281	10,357,592	292,311
\$5 Auto License Fee	515,798	970,000	454,202
Air Pollution	529,657	807,209	277,552
Health Fund	731,631	969,295	237,664
CDBG Fund	7,650,378	15,134,989	7,484,611
Litter Control Program	199,086	200,449	1,363
Weed and Seed Fund	157,046	379,250	222,204
Juvenile Diversion Grant	31,310	285,701	254,391
Local Homes Trust	2,159,584	3,787,130	1,627,546
Debt Service Fund	2,621,812	2,686,390	64,578
<u>Capital Projects Funds</u>			
Convocation Center	5,010	26,695,430	26,690,420
Capital Projects Public Works	2,550,213	4,035,576	1,485,363
Demolition	1,709,384	2,612,675	903,291
Capital Improvement Levy	2,744,422	3,962,257	1,217,835

Contrary to Section 5705.41, Ohio Revised Code, the City had numerous instances in which expenditures plus encumbrances were in excess of appropriations.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE - (Continued)

The City had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10. For GAAP purposes, these amounts have been reported as fund liabilities in the respective funds.

Fund	Amount
General Fund	\$ 1,953,264
<u>Special Revenue Funds</u>	
Street Construction, Maintenance & Repair	40,500
Police Levy	35,139
Fire Levy	539,207
Litter Control	81,291
Juvenile Diversion Grant	34,332
Debt Service	108,734
<u>Capital Projects Funds</u>	
Wick Building	4,496
Capital Projects Public Works	828,503
<u>Enterprise Fund</u>	
Water	799,147
<u>Agency Fund</u>	
Hospitalization-Life Insurance	691

4. DEPOSITS AND INVESTMENTS

A. Primary Government

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City 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 Council has identified as not required for use within the current two 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.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS - (Continued)

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.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies can be invested in the following obligations:

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 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS - (Continued)

Deposits: At year-end, the carrying amount of the City's deposits was \$4,742,265 and the bank balance was \$5,715,524. Of the bank balance:

1. \$1,033,119 was covered by federal depository insurance.
2. \$4,682,405 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by a third party trustee, pursuant to Ohio Revised Code Section 135.181, in collateralized pools securing all public funds on deposits with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject City to a successful claim by the FDIC.

Investments: Investments are classified by three categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. The investment in the Star Bank Cash Management Fund is not categorized since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Repurchase agreement	\$ 3,151,835	\$3,151,835	\$ 3,151,835
Star Bank cash management fund	-	13,874	13,874
Total investments	<u>\$ 3,151,835</u>	<u>\$3,165,709</u>	<u>\$ 3,165,709</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with maturities of three months or less at the time of their purchase by the City.

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,907,974	\$ -
Investments:		
Repurchase agreement	(3,151,835)	3,151,835
Star Bank cash management fund	(13,874)	13,874
GASB Statement No. 3	<u>\$ 4,742,265</u>	<u>\$ 3,165,709</u>

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS - (Continued)

B. Component Unit

The provisions of the Ohio Revised Code govern the investment and deposit of Authority monies. In accordance with these statutes, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit WRTA to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAROhio), and obligations of the United States government and certain agencies thereof. WRTA may also enter into repurchase agreements with any eligible depository or any eligible dealer who is a member of the National Association of Securities Dealers for a period not to exceed thirty days.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 110 percent of the total value of public monies on deposit at the institution, or may deposit surety company bonds which when executed shall be for an amount in excess of collateral requirements. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2 percent and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Authority's name.

WRTA is prohibited from investing in any financial instruments, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instruments, contracts, or obligation itself (commonly known as a derivative). The WRTA is also prohibited from investing in reverse purchase agreements.

Deposits: The carrying amount of WRTA's deposits was \$19,293 at December 31, 2002 which was supported by a \$19,601 bank balance consisting of demand deposits. Of the bank balance, \$100,000 was covered by depository insurance and there was no uninsured and uncollateralized deposits as defined by the Governmental Accounting Standards Board.

Investments: WRTA's investments are detailed below and are categorized in accordance with the criteria established by the Governmental Accounting Standards Board to indicate the level of credit risk assumed as of December 31, 2002. Category 1 includes investments that are insured or registered for which the securities are held by WRTA or its agent in WRTA's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in WRTA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in WRTA's name.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS - (Continued)

	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Repurchase agreement	<u>\$ 5,235,156</u>	<u>\$ 5,235,156</u>	<u>\$ 5,235,156</u>

The deposit and investment balances at December 31, 2002 are included in the accompanying balance sheet under the following captions:

Cash and cash equivalents	\$ 5,241,268
Restricted assets - cash and cash equivalents	<u>13,181</u>
 Total	 <u>\$ 5,254,449</u>

5. INTERFUND TRANSACTIONS

A. The following is a summarized breakdown of the City's operating transfers for 2002:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 479,002	\$ 20,066,986
<u>Special Revenue Funds</u>		
Parks and Recreation	2,416,678	392,248
CDBG	-	1,731,036
Street Maintenance, Repair and Construction	2,893,520	347,339
\$5 Auto License Fee	652,563	-
Health	15,152	-
Police Levy	10,099,172	-
Fire Levy	<u>6,385,000</u>	<u>-</u>
Total Special Revenue Funds	<u>22,462,085</u>	<u>2,470,623</u>
Debt Service Fund	242,000	97,500
<u>Capital Projects Funds</u>		
Wick Building	65,000	-
Capital Projects Public Works	151,947	-
Demolition	158,132	-
Industrial Land Acquisition	97,500	-
Capital Improvement Levy	1,512,155	2,500,000
Ashford Commons Development	<u>1,256,000</u>	<u>-</u>
Total Capital Projects Funds	<u>3,240,734</u>	<u>2,500,000</u>
<u>Enterprise Funds</u>		
Sewer	-	1,100,712
Water	<u>-</u>	<u>188,000</u>
Total Enterprise Funds	<u>-</u>	<u>1,288,712</u>
Total	<u>\$ 26,423,821</u>	<u>\$ 26,423,821</u>

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

5. INTERFUND TRANSACTIONS - (Continued)

B. Interfund balances at December 31, related to charges for goods and services rendered, consist of the following amounts due to and from other funds:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 61,348	\$ -
<u>Special Revenue Funds</u>		
Drug Law Enforcement	820	-
Indigent Alcohol Treatment	175	-
DUI Law Enforcement	110	-
Municipal Probation Services	<u>3,168</u>	<u>-</u>
Total Special Revenue Funds	<u>4,273</u>	<u>-</u>
<u>Capital Projects Fund</u>		
Court Capital Improvements	<u>20,153</u>	<u>-</u>
<u>Agency Funds</u>		
Municipal Court	<u>-</u>	<u>85,774</u>
Total	<u>\$ 85,774</u>	<u>\$ 85,774</u>

C. The following is a reconciliation of the City's interfund loans outstanding at December 31, 2002:

	<u>Interfund Loan Receivable</u>	<u>Interfund Loan Payable</u>
General Fund	\$ -	\$ 1,953,264
<u>Special Revenue Funds</u>		
Street Construction, Maintenance & Repair	-	40,500
Police Levy	-	35,139
Fire Levy	-	539,207
Litter Control	-	81,291
Juvenile Diversion Grant	<u>-</u>	<u>34,332</u>
Total Special Revenue Funds	<u>-</u>	<u>730,469</u>
Debt Service Fund	-	258,734

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

5. INTERFUND TRANSACTIONS - (Continued)

	<u>Interfund Loan Receivable</u>	<u>Interfund Loan Payable</u>
<u>Capital Projects Funds</u>		
Industrial Property	\$ 843,699	\$ -
Capital Improvement Levy	741,120	-
Ashford Commons Development	150,000	-
Wick Building	-	4,496
Capital Projects Public Works	-	<u>828,503</u>
Total Capital Projects Funds	<u>1,734,819</u>	<u>832,999</u>
<u>Enterprise Funds</u>		
Water	-	799,147
Sewer	<u>2,839,794</u>	-
Total Enterprise Funds	<u>2,839,794</u>	<u>799,147</u>
Total	<u>\$ 4,574,613</u>	<u>\$ 4,574,613</u>

6. INCOME TAX

The City levies an income tax of two and one quarter percent on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit not to exceed two and one quarter percent on income earned outside the City and paid to other municipalities. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax revenue is credited to four funds. Of the original two percent levied, the general fund receives one and one-half percent and of the remaining one-half percent, 40 percent is credited to the police levy special revenue fund, 35 percent to the fire levy special revenue fund, and 25 percent to the 1/4 of 5 mill capital improvement capital projects fund. An additional one-quarter percent was levied for 1997. Of this additional one-quarter percent 50 percent is credited to the police levy special revenue fund, 25 percent to the fire levy special revenue fund, and 25 percent to the 1/4 of 5 mill capital improvement capital projects fund. Effective January 1, 2003, the citizens of the City voted for an additional one half percent to bring the total tax levied on income to two and three quarter percent. Of the additional one half percent levied, 45 percent is credited to the police levy special revenue fund, 35 percent to the fire levy special revenue fund, and 20 percent to the 1/4 of 5 mill capital improvement capital projects fund.

7. PROPERTY TAXES

A. Primary Government

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2002 for real and public property taxes represents collections of 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) is for 2002 taxes.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

7. PROPERTY TAXES - (Continued)

2002 real property taxes are levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of true value. 2002 real property taxes are collected in and intended to finance 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2002 with real property taxes.

2002 tangible personal property taxes are levied after October 1, 2001, on the values as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2002, was \$3.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon with 2002 property tax receipts were based as follows:

<u>Category</u>	<u>Assessed Value</u>
Real estate	\$462,334,700
Tangible personal	94,258,870
Public utility	<u>59,351,210</u>
Total	<u>\$615,944,780</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Youngstown. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2002 operations. The receivable is offset by deferred revenue.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

7. PROPERTY TAXES - (Continued)

B. Component Unit

The WRTA is subsidized by property tax levies passed by the voters of the City. Property taxes of 5.0 mills were levied in 2002, 2000 and 1995 that expire as follows: 4.0 mills in 2005 and 1.0 mill in 2010. Property tax revenue can be used for operating or capital purposes.

The WRTA records property tax revenues and related estimated property taxes receivable in the year the taxes are levied. Differences between the estimated property tax receivable and the actual property tax receipts are included in revenue, generally in the following year, when the difference becomes known.

The WRTA receives cash from tax levies when the related property tax collections are distributed by the Mahoning County Auditor's office. These distributions are generally received in the year following that for which the tax is levied.

8. SPECIAL ASSESSMENTS

Special assessments include annually assessed service assessments. Service type special assessments are levied against all property owners which benefit from the provided service. Special assessments are payable by the time and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's special assessments include street lighting, demolitions including board-ups and asbestos abatement, curbs, sidewalks, sewer rehabilitation and weed cutting which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year.

9. RECEIVABLES

A. Primary Government

Receivables at December 31, 2002, consisted of taxes, accounts (billings for user charged services), notes, interest on investments, special assessments and intergovernmental receivables arising from grants, entitlements or shared revenues. All governmental fund type receivables are considered fully collectible. Utility receivables are reflected at net realizable value net of an allowance of 20 percent for uncollectible accounts.

Notes receivable represent low-interest Community Development Agency loans made to eligible residents and businesses of the City of Youngstown for development projects, home improvements and rental property rehabilitation. Rental property rehabilitation loan agreements state that the loan recipient will not sell the property for ten years after such rehabilitation is completed. The Community Development Agency secures a lien against the property for this ten-year period. Ten percent of the loan is forgiven each year for the duration of the ten-year lien if the rental property owner does not sell the property. At the end of the tenth year, the loan is completely forgiven and the lien is taken off of the property. The outstanding principal balance of unforgiven rental property rehabilitation loans at December 31, 2002 is \$29,001. The outstanding balance of other loans is \$4,499,730 for a total of \$4,528,731, in notes receivable.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

9. RECEIVABLES - (Continued)

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivable</u>	<u>Amount</u>
<u>General Fund</u>	
Local government (Mahoning County)	\$ 1,369,064
Local government (State of Ohio)	359,056
Local government revenue distribution	<u>299,644</u>
 Total General Fund	 <u>2,027,764</u>
<u>Special Revenue Funds</u>	
Street Construction, Maintenance and Repair	990,884
Police Levy	337,845
\$5 Auto License Fee	249,149
Health Department	158,206
CDBG	8,449,907
HUD Section 108	1,852,746
Weed and Seed	155,282
Juvenile Diversion Grant	32,847
Local Homes Trust	2,610,722
Air Pollution	<u>258,204</u>
 Total Special Revenue Funds	 <u>15,095,792</u>
<u>Debt Service Fund</u>	
Bond Retirement	<u>115,532</u>
<u>Capital Projects Fund</u>	
Capital Projects Public Works	<u>2,213,567</u>
 Total	 19,452,655

B. Component Unit

Receivables at December 31, 2002, consisted of taxes, accounts, and intergovernmental receivables arising from operating, capital, and planning grants. All receivables are considered fully collectible.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

9. RECEIVABLES - (Continued)

<u>Intergovernmental Receivable</u>	<u>Amount</u>
Federal assistance	\$ 1,493,423
State assistance	477,790
Property taxes	<u>2,667,974</u>
Total	<u>\$ 4,639,187</u>

10. FIXED ASSETS

A. Primary Government

All fund fixed assets relate to the water and sewer service enterprise funds. The balances as of December 31, 2002, for the two funds were as follows:

Land	\$ 185,446
Buildings	37,386,491
Improvements other than buildings	2,153,877
Machinery and equipment	23,601,707
Infrastructure	21,946,055
Vehicles	<u>3,089,546</u>
Total	88,363,122
Less: accumulated depreciation	<u>(44,578,020)</u>
Net fixed asset	43,785,102

Changes in general fixed assets during 2002 were as follows:

	<u>Balance</u> <u>12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/02</u>
Land	\$ 2,747,574	\$ 72,350	\$ -	\$ 2,819,924
Buildings	11,951,628	395,696	-	12,347,324
Improvements other than buildings	2,400,880	3,652	(5,101)	2,399,431
Machinery and equipment	6,542,042	787,700	(68,002)	7,261,740
Vehicles	<u>8,550,590</u>	<u>991,538</u>	<u>(438,020)</u>	<u>9,104,108</u>
Total	<u>\$32,192,714</u>	<u>\$ 2,250,936</u>	<u>\$(511,123)</u>	<u>\$33,932,527</u>

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

10. FIXED ASSETS - (Continued)

B. Component Unit

The fixed assets of the WRTA as of December 31, 2002, were as follows:

Land	\$ 693,004
Buildings and improvements	7,400,636
Transportation equipment	13,703,556
Other equipment	<u>1,147,687</u>
Total	22,944,883
Less: accumulated depreciation	<u>(8,089,383)</u>
Net fixed assets	<u>\$14,855,500</u>

11. INDUSTRIAL DEVELOPMENT REVENUE BONDS

In 1993, the City issued industrial development revenue bonds in the principal amount of \$5,550,000 on behalf of a private corporation, Ameritech (formerly Ohio Bell). The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore, they have been excluded entirely from the City's debt presentation. There has not been and is not any condition of default under the bonds or the related financing documents. The bonds are secured by resources provided to a trustee through a lease with Ameritech on whose behalf they were issued.

12. LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during the year ended December 31, 2002, were as follows:

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

12. LONG-TERM OBLIGATIONS – (Continued)

	<u>Balance</u> <u>12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/02</u>
Enterprise Debt:				
<u>General Obligation Bonds</u>				
3.10 - 5.10% 1998 Refunding Water fund portion	\$ 1,135,000	\$ -	\$ (70,000)	\$ 1,065,000
3.10 - 5.10% 1998 Refunding Sewer fund portion	<u>555,000</u>	<u>-</u>	<u>(30,000)</u>	<u>525,000</u>
Total general obligation bonds	<u>1,690,000</u>	<u>-</u>	<u>(100,000)</u>	<u>1,590,000</u>
<u>Revenue Bonds</u>				
5.75% 1976 Waterworks System	<u>120,000</u>	<u>-</u>	<u>(120,000)</u>	<u>-</u>
<u>OWDA Loans</u>				
9.99% Wastewater Treatment Plant Improvement - Phase I	785,136	-	(118,601)	666,535
10.84% Wastewater Treatment Plant Improvement - Phase II	707,071	-	(56,947)	650,124
8.97% Wastewater Treatment Plant Improvement - Phase III	4,168,663	-	(277,249)	3,891,414
8.09% Water Meter Conversion	<u>1,137,867</u>	<u>-</u>	<u>(206,934)</u>	<u>930,933</u>
Total OWDA loans	<u>6,798,737</u>	<u>-</u>	<u>(659,731)</u>	<u>6,139,006</u>
Total enterprise funds obligations	<u>\$ 8,608,737</u>	<u>\$ -</u>	<u>\$ (879,731)</u>	<u>\$ 7,729,006</u>

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

12. LONG-TERM OBLIGATIONS - (Continued)

	Balance <u>12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/02</u>
General Long-Term Obligations Account Group:				
<u>General Obligations Bonds</u>				
5.50% 1977 Offstreet Parking	\$ 300,000	\$ -	\$ (300,000)	\$ -
3.60 - 7.50% 1995 Various Purpose Improvement	3,955,000	-	(220,000)	3,735,000
3.10 - 5.10% 1998 Advance Refunding	5,885,000	-	(520,000)	5,365,000
4.40 6.00% 2000 Pension Refunding	<u>10,255,000</u>	<u>-</u>	<u>(100,000)</u>	<u>10,155,000</u>
Total general obligation bonds	<u>20,395,000</u>	<u>-</u>	<u>(1,140,000)</u>	<u>19,255,000</u>
<u>Industrial Development Revenue Bonds</u>				
6.0% 1993 Ohio Bell Project	<u>840,000</u>	<u>-</u>	<u>(120,000)</u>	<u>720,000</u>
Total industrial development revenue bonds	<u>840,000</u>	<u>-</u>	<u>(120,000)</u>	<u>720,000</u>
<u>HUD Section 108 Loans</u>				
6.52% Exal Project	2,865,000	-	(330,000)	2,535,000
6.84 - 8.27% Forte Mfg.	325,000	-	(90,000)	235,000
6.84 - 8.27% Beachwood Village	200,000	-	(85,000)	115,000
6.84 - 9.03% Youngstown	1,995,000	-	(100,000)	1,895,000
6.84 - 9.03% Far Art	130,000	-	(35,000)	95,000
6.84 - 9.03% Cantar/Polyair	1,230,000	-	(270,000)	960,000
6.0125% Youngstown CIC	1,289,950	-	(55,000)	1,234,950
6.84 - 9.03% Mahoning Conty	-	-	-	-
Chemical Dependency Program	80,000	-	(40,000)	40,000
6.84 - 9.03% Housing Rehab	<u>950,000</u>	<u>-</u>	<u>(50,000)</u>	<u>900,000</u>
Total HUD section 108 loans	<u>9,064,950</u>	<u>-</u>	<u>(1,055,000)</u>	<u>8,009,950</u>
<u>Other Long-Term Obligations</u>				
Notes payable	600,000	600,000	(600,000)	600,000
Due to other governments	1,715,691	1,707,132	(1,715,691)	1,707,132
Compensated absences	<u>6,668,891</u>	<u>25,517</u>	<u>-</u>	<u>6,694,408</u>
Total other long-term obligations	<u>8,984,582</u>	<u>2,332,649</u>	<u>(2,315,691)</u>	<u>9,001,540</u>
Total general long-term obligations	<u>\$ 39,284,532</u>	<u>\$ 2,332,649</u>	<u>\$ (4,630,691)</u>	<u>\$ 36,986,490</u>

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

12. LONG-TERM OBLIGATIONS - (Continued)

The City's overall legal debt margin was \$45,891,976 at December 31, 2002. Principal and interest requirements to retire the enterprise funds' long-term debt obligations outstanding at December 31, 2002, are as follows:

<u>Year</u>	General Obligation <u>Bonds</u>	OWDA <u>Loans</u>	<u>Total</u>
2003	\$ 193,782	\$ 1,957,264	\$ 2,151,046
2004	194,042	1,957,266	2,151,308
2005	213,980	1,276,785	1,490,765
2006	232,755	1,118,966	1,351,721
2007	240,405	1,023,695	1,264,100
2008 - 2011	<u>937,355</u>	<u>464,213</u>	<u>1,401,568</u>
Total principal and interest	2,012,319	7,798,189	9,810,508
Less: interest	<u>(422,319)</u>	<u>(1,659,183)</u>	<u>(2,081,502)</u>
Total principal outstanding	<u>\$ 1,590,000</u>	<u>\$ 6,139,006</u>	<u>\$ 7,729,006</u>

Principal and interest requirements to retire the general long-term debt obligations outstanding at December 31, 2002, are as follows:

<u>Year</u>	General Obligation <u>Bonds</u>	Industrial Development Revenue <u>Bonds</u>	HUD Section 108 <u>Loans</u>	<u>Total</u>
2003	\$ 1,921,626	\$ 161,400	\$ 1,861,662	\$ 3,944,688
2004	1,943,057	154,200	1,480,264	3,577,521
2005	1,935,228	147,000	1,422,342	3,504,570
2006	1,919,665	139,800	1,057,873	3,117,338
2007	1,906,208	132,600	1,063,492	3,102,300
2008 - 2012	8,811,274	125,400	3,220,987	12,157,661
2013 - 2017	4,508,876	-	924,697	5,433,573
2018 - 2022	3,631,311	-	169,880	3,801,191
2023 - 2027	3,631,707	-	-	3,631,707
2008 - 2011	<u>2,903,200</u>	<u>-</u>	<u>-</u>	<u>2,903,200</u>
Total principal and interest	33,112,152	860,400	11,201,197	45,173,749
Less: interest	<u>(13,857,152)</u>	<u>(140,400)</u>	<u>(3,191,247)</u>	<u>(17,188,799)</u>
Total principal outstanding	<u>\$ 19,255,000</u>	<u>\$ 720,000</u>	<u>\$ 8,009,950</u>	<u>\$ 27,984,950</u>

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

12. LONG-TERM OBLIGATIONS - (Continued)

General obligation bonds and OWDA loans reported in the enterprise funds are payable from charges for services in the enterprise funds. The 1976 waterworks system revenue bonds were issued to construct water mains and a pumping station and are payable from revenues of the water enterprise fund.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. The general obligation bonds reported in the general long-term obligation account group, are to be repaid from property tax revenues that are received in the debt service fund.

The industrial development revenue bonds are also direct obligations of the City. The City issued these bonds to attract new business and create jobs for City residents by improving the sites of industrial parks. The Salt Spring Industrial Park Project industrial development revenue bonds are payable from non-tax revenues. The Ohio Bell Project industrial development revenue bonds will be paid from payments in lieu of taxes from Ameritech (formerly Ohio Bell). Collection of these payments in lieu of taxes began in 1996. Ameritech is directly responsible for paying for a portion of the Ohio Bell industrial park project through a separate issue of industrial development revenue bonds (see Note 11).

The HUD Section 108 loans will be paid from community development agency entitlements.

Bond anticipation notes that were rolled over prior to the issuance of the financial statements and have a new maturity beyond the end of the year in which the report is issued, have been reported in the general long-term obligations account group. The notes are backed by the full faith of the City of Youngstown.

The due to other governments liability represents amounts owed to retirement systems paid outside the available period and will be paid from the fund which the employees' salaries are paid.

For compensated absences, additions and deletions of accrued vacation and sick leave are shown net since it is impractical for the City to determine these amounts separately. Compensated absences will be paid from the fund from which the employees' salaries are paid.

Bonds Payable in the enterprise funds is made up of the following components:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Outstanding balance of general obligation bonds	\$ 1,065,000	\$ 525,000	\$ 1,590,000
Unamortized premium	13,639	6,791	20,430
Unamortized accounting loss	<u>(91,404)</u>	<u>(45,736)</u>	<u>(137,140)</u>
Net bonds payable	<u>\$ 987,235</u>	<u>\$ 486,055</u>	<u>\$ 1,473,290</u>

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

13. SHORT-TERM DEBT

Note activity during 2002 consisted of the following:

	<u>Balance</u> <u>12/31/01</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/02</u>
<u>General Obligation Notes</u>				
6.06% Street Improvements	\$ 4,000,000	\$ -	\$(4,000,000)	\$ -
8.88% Taxable Street Improvements	1,750,000	-	(1,750,000)	-
6.06% Street Improvements	150,000	-	(150,000)	-
2.75% Street Improvements	-	4,150,000	-	4,150,000
2.00% Taxable Street Improvements	-	<u>1,705,000</u>	-	<u>1,705,000</u>
Total general obligation notes	<u>\$ 5,900,000</u>	<u>\$ 5,855,000</u>	<u>\$(5,900,000)</u>	<u>\$ 5,855,000</u>

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. There are also limitations on the number of times notes can be renewed. All notes outstanding at year end are bond anticipation notes. The notes will be refinanced until the projects are complete and the City determines it to be advantageous to issue bonds. The note liability is reflected in the funds which received the proceeds.

14. RISK MANAGEMENT

A. Primary Government

During 2002, the City of Youngstown contracted for a package of municipal and property insurance from the Ohio Municipal Joint Self-insurance Pool (the "Pool"), administered by JWF Specialty Company.

The City entered into a participation agreement with the Pool, which provides insurance to its members and provides for additional assessments to its members if contributions are insufficient to meet its obligations. The insurance package included General Liability with a combined coverage of \$10 million and various sublimits, deductibles of \$10,000 per occurrence except for law enforcement and public officials liability which had deductibles of \$25,000, automobile liability with \$0 deductible and automobile physical damage coverage with deductibles of \$1,000. Prior acts coverage was provided with a limit of \$5 million, and a \$25,000 deductible. Blanket property casualty coverage in the amount of \$91,030,023 was provided with deductibles of \$2,500 per occurrence except for scheduled inland marine and EDP property with deductibles of \$250.

The City paid an annual basic contribution for the foregoing coverage of \$505,347 with a surplus contribution of \$39,376 for a total of \$544,723. Boiler and machinery coverage was provided by Travelers at a cost of \$16,385.

The City had a Crime Policy through Hartford Insurance Company at a cost of \$3,175 with endorsements providing faithful performance coverage for the three members of the Board of Control, the Mayor, the Law Director and the Finance Director in the amount of \$1 million each, and \$25,000 for the Clerk of Courts and \$2,000 coverage for the Bailiff. Additionally, the City had a public official faithful performance bond in the amount of \$100,000 for the Finance Director and \$25,000 for the Clerk of Courts.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

14. RISK MANAGEMENT – (Continued)

The City had a blanket property casualty coverage through its Coregis municipal insurance package with a limit of \$95,850,688 and a deductible of \$5,000 per occurrence.

In calendar year 2002, the City paid deductibles totaling \$43,917 to the Ohio Municipal League Joint Self-Insurance Pool for cases that had arisen during its period of coverage (1995 through 1999).

Deductibles paid to Coregis during calendar year 2002 totaled \$15,000.

The City 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.

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

B. Component Unit

WRTA is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, flood and earthquake, errors, and omissions, employment related matters, injuries to employees and employee theft and fraud. Effective December 31, 1994, the Authority commenced participation in the Ohio Transit Insurance Pool Association, Inc. ("OTIP"), related to its risk of property and casualty loss. Under this plan, the Authority receives property and casualty loss coverage in exchange for premiums paid. OTIP self-insures the first \$250,000 of any qualified property loss and the first \$500,000 of any qualified casualty loss subject to a \$1,000 per loss deductible. Per occurrence, excess insurance coverage is maintained by OTIP equal to approximately \$339,000,000 for qualified property losses and \$20,000,000 for qualified casualty losses. The annual aggregate stop-loss limit for casualty is \$3,300,000 and for property is \$500,000. Any underfunding of the plan's liabilities is shared pro-rata by the members based on pool contribution factors comprised of: population, full-time employees, vehicles, property values, budget, claims history times two and net operating expenses.

WRTA continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

15. EMPLOYEE BENEFITS

A. Life/Health Insurance

During 2002, the City provided health insurance benefits through Medical Mutual of Ohio to its employees at an approximate cost of \$5,626,399.

Medical/surgical benefits are provided under a traditional plan where the insurer pays 80% of claims after the employee meets the deductible of \$200 single, \$400 family. The employee portion was 20% up to a limit of \$180. A PPO plan with no deductibles or co-pays within a network of providers was also available to employees. Monthly composite premiums per employee paid by the City were \$574.78 for traditional and \$520 for the PPO plan on a composite basis.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

15. EMPLOYEE BENEFITS – (Continued)

Prescription coverage from Medical Mutual was available to employees enrolled under the PPO plan. The City portion of the premiums were \$182.04 monthly on a composite basis for this prescription drug coverage and the employee portion is approximately \$47.00 per month through payroll deduction.

Dental and vision coverage was provided to employees, except for members of two AFSCME unions (Water and Clerical). The premium paid by the City was \$50.75 per month composite rate. Members of AFSCME 2312 and 2726 had vision, dental and life insurance coverage through the Ohio AFSCME Care Plan. The City contributes \$50.25 per month per AFSCME employee for this coverage.

The City provides life insurance and accidental death and dismemberment insurance in equal amounts to its active employees. Coverage was \$9,500 per employee, with the exception of Waste Water Treatment Plant, Fire Department and Emergency 911 employees who had coverage of \$15,000 and police officers who have coverage of \$20,000.

Life insurance coverage was also provided to retirees through Standard Insurance in amounts ranging from \$1,500 to \$5,000 depending on retirement year. The cost of employee (both active and retired) life insurance coverage was approximately \$12,000 per month.

B. Compensated Absences

City employees earn sick leave at a rate of one and one quarter days per month, not to exceed 15 days per year. Sick leave may be accumulated without limit. The City's policy is that 35 percent of accrued sick leave will be paid to an employee upon retirement or termination of service.

City employees earn two to six weeks of vacation per year, depending upon length of service. Upon termination of service, an employee is entitled to receive payment for any unused vacation time plus accrued vacation time earned during the year.

For governmental funds, the current portion of unpaid compensated absences is recorded as a current liability in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability. As of December 31, 2002, the liability for unpaid compensated absences was \$8,154,421 for the entire City.

16. SEGMENT INFORMATION - ENTERPRISE FUNDS

The City maintains two enterprise funds to account for the operation of the City's water and sewer operations. Financial segment information as of and for the year ended December 31, 2002, for the Water Fund, the Sewer Fund and component unit is presented below:

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

16. SEGMENT INFORMATION - ENTERPRISE FUNDS – (Continued)

	<u>Water</u>	<u>Sewer</u>	<u>Total Primary Government</u>
Operating revenues	\$ 15,747,737	\$ 13,510,805	\$ 29,258,542
Depreciation expense	528,697	2,036,008	2,564,705
Operating income	76,209	166,766	242,975
Operating transfers out	188,000	1,100,712	1,288,712
Net loss	(150,498)	(1,446,397)	(1,596,895)
Fixed asset additions	979,695	769,686	1,749,381
Net working capital	493,510	7,384,356	7,877,866
Total assets	16,796,466	39,335,465	56,131,931
Total long-term liabilities	1,918,168	5,694,128	7,612,296
Total equity	12,165,514	31,928,597	44,094,111
Encumbrances outstanding at December 31, 2002	38,386	1,198,468	1,236,854

17. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2002. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2002. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$1,733,821, and \$1,856,588, and \$1,140,754, respectively; 73.95% has been contributed for 2002 and 100% for 2001 and 2000. \$451,636, representing the unpaid contribution for 2002, is recorded as a liability within the general long-term obligations account group.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

17. DEFINED BENEFIT PENSION PLANS - (Continued)

Component Unit - WRTA's total contribution to the Public Employees Retirement System (PERS) for pension benefits (excluding the amount related to postretirement benefits) for the years ended December 31, 2002 and 2001 were \$284,000 and \$296,000, respectively, equal to 100% of the required contribution for each year.

The WRTA is also making payments to qualifying retirees for service rendered to a predecessor transit company. This liability was not funded by the predecessor transit company and the remaining liability has not been funded by WRTA. The unfunded liability for future benefits under the predecessor transit company has not been determined. All employees eligible for benefits under this plan are retired. Expense under this arrangement charged to operations for the years ended December 31, 2002 and 2001 were \$3,756 and \$3,756, respectively.

B. Ohio Police and Fire Pension Fund

Full-time uniformed employees of the City participate in the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for police and firefighters were \$1,176,325 and \$1,075,911 for the year ended December 31, 2002, \$1,082,658 and \$986,179 for the year ended December 31, 2001, and \$1,110,461 and \$1,007,192 for the year ended December 31, 2000. 72.84% and 70.67% has been contributed for 2002 for police officers and firefighters, respectively, and 100% for the years 2001 and 2000. \$319,442 and \$315,580, representing the unpaid contributions for 2002 for police officers and firefighters, respectively, the unpaid contributions for 2002 is recorded as a liability within the general long-term obligations account group.

18. POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

18. POSTRETIREMENT BENEFIT PLANS – (Continued)

For both the public safety and law enforcement divisions the 2002 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$1,013,930.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

As of December 31, 2001 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively, at December 31, 2001 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2001 (the latest information available) was 402,041.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2002, Comprehensive Annual Financial Report.

Component Unit - The actuarially determined and statutorily required contribution requirement from the WRTA for the years ended December 31, 2002 and 2001 were \$166,000 and \$137,005, respectively.

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers".

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

18. POSTRETIREMENT BENEFIT PLANS – (Continued)

The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50% and 7.75% of covered payroll in 2001 and 2002, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2001 (the latest information available), is 13,174 for police officers and 10,239 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$774,464 and \$513,322, respectively. OP&F's total health care expense for the year ending December 31, 2001 (the latest information available), was \$122.299 million, which was net of member contributions of \$6.875 million.

19. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP (generally accepted accounting principles) basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) at the time authorized as opposed to a reservation of fund balance for unperformed purchase commitments in governmental fund types and note disclosure for proprietary fund types (GAAP basis).
- (d) Short-term note proceeds and note principal retirement for governmental fund types are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

19. BUDGETARY BASIS OF ACCOUNTING – (Continued)

Excess of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$ (3,215,766)	\$ (2,562,708)	\$ (128,984)	\$ (445,045)
Net adjustment for revenue accruals	(550,557)	(668,404)	(11,100)	(32,366)
Net adjustment for expenditure accruals	30,030	(299,571)	97,446	5,619,199
Net adjustment for other financing sources/(uses) accruals	-	310,189	(97,500)	(5,757,500)
Encumbrances	<u>58,153</u>	<u>196,332</u>	<u>-</u>	<u>891,751</u>
GAAP basis	<u>\$ (3,678,140)</u>	<u>\$ (3,024,162)</u>	<u>\$ (140,138)</u>	<u>\$ 276,039</u>

20. CONTINGENT LIABILITIES

A. Litigation

Primary Government - The City of Youngstown is currently party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Component Unit - The WRTA has been named as a defendant in a number of contract disputes and other legal proceedings. Although the eventual outcome of these matters cannot be predicted, it is the opinion of management based upon the advice of legal counsel that the ultimate liability is not expected to have a material effect on WRTA's financial position.

B. Federal and State Grants

Primary Government - For the period January 1, 2002, to December 31, 2002, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

Component Unit - Under the terms of the various grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grant. At December 31, 2002, there were no significant questioned costs that had not been resolved with the applicable federal and state agencies. Questioned costs could still be identified during audits to be conducted in the future. In the opinion of WRTA's management, no material grant expenditures will be disallowed.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

21. SUBSEQUENT EVENTS

On September 26, 2002, the Mahoning County Court of Appeals entered judgment reinstating the \$2,000,000 verdict in favor of Allied Erecting and Dismantling, Inc. (Allied) and against the City. The City filed an appeal to the Ohio Supreme Court, but the Court declined jurisdiction. The judgment in favor of Allied thus became final. The City satisfied the judgment by payment on May 1, 2003.

On April 30, 2003, the City of Youngstown issued a bond anticipation note in the aggregate amount of \$2,400,000 with an interest rate of 2.60 percent for payment of the above judgment. The note matures April 30, 2004.

The City is currently experiencing certain negative financial conditions. As of December 31, 2002, the following funds had negative cash balances:

Fund	Deficit
General Fund	\$ 1,995,651
Street Construction, Maintenance & Repair	40,500
Police Levy	44,389
Fire Levy	539,207
Water	982,512
Emergency 911 System	33,705
Wick Building	4,495
Capital Projects Public Works	828,503
Litter Control Program	81,291
Federal Plaza Ad Hoc Committee	4,638
Juvenile Diversion	34,332

At December 31, 2003 the City reflected deficit fund balances in the following funds:

Fund	Deficit
General Fund	\$ 1,149,099
Street Construction, Maintenance & Repair	28,523
Fire Levy	455,613
Water	1,969,282
Meadowbrook Pump Station	1,191,414
Capital Projects Public Works	333,964
Litter Control Program	128,613
Juvenile Diversion	71,551
Weed & Seed Grant	8,482
Health Services for the Homeless	4,248
Demolition Fund	73,457

The City had an \$843,781 deficit for the general and general reliant funds at the end of 2003.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

21. SUBSEQUENT EVENTS – (Continued)

To address their negative financial conditions, the City passed a levy in November 2002 to raise income tax by ½% to be used for police and fire operations and capital improvement. The levy is expected to provide an additional \$1 million per year. Additionally, City Council approved an increase in sewer rates by 33% over 3 ½ years, which began October 1, 2002. The City has also approved an 8.5% increase in water rates beginning January 1, 2004. The City also plans to increase the water rates by 5.5% in 2005.

In December 2003 nonunion employees started paying ten percent of the monthly premium that the City pays for each employee's health benefits. Through attrition, the City expects payroll expenditures will continue to be lessened, and management will continue to monitor the budget and will make other spending cuts or take other actions deemed necessary to compensate for the negative fund balances.

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**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>US DEPT OF HOUSING AND URBAN DEVELOPMENT</u>				
<i>Direct Programs</i>				
Community Development Block Grant/ Entitlement Grants -21th Yr	B-95-MC-39-0023	14.218	\$295	\$869
Community Development Block Grant/ Entitlement Grants -22th Yr	B-96-MC-39-0023	14.218	6,745	2,033
Community Development Block Grant/ Entitlement Grants -23rd Yr	B-97-MC-39-0023	14.218	25,777	35,222
Community Development Block Grant/ Entitlement Grants -24th Yr	B-98-MC-39-0023	14.218	25,647	35,234
Community Development Block Grant/ Entitlement Grants -25th Yr	B-99-MC-39-0023	14.218	188,467	196,851
Community Development Block Grant/ Entitlement Grants -26th Yr	B-00-MC-39-0023	14.218	1,053,384	1,401,765
Community Development Block Grant/ Entitlement Grants -27th Yr	B-01-MC-39-0023	14.218	1,752,403	2,485,748
Community Development Block Grant/ Entitlement Grants -28th Yr	B-02-MC-39-0023	14.218	2,069,228	2,234,738
Section 108 Loan Fund	B-02-MC-39-0023	14.218	-	161,826
Subtotal			5,121,946	6,554,286
Emergency Shelter Grants Program	S-99-MC-39-0023	14.231	253	253
Emergency Shelter Grants Program	S-00-MC-39-0023	14.231	28,891	28,891
Emergency Shelter Grants Program	S-01-MC-39-0023	14.231	122,883	122,883
Emergency Shelter Grants Program	S-02-MC-39-0023	14.231	35,150	35,150
Subtotal			187,177	187,177
Homeless Outreach and Care Nurse	OH-16B01-1004	14.238	51,482	16,234
Homeless Outreach and Care Nurse	OH-16B02-1004	14.238	30,000	27,943
Subtotal			81,482	44,177

Continued

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>US DEPT OF HOUSING AND URBAN DEVELOPMENT</u>				
<i>Direct Programs</i>				
HOME Investment Partnerships Program	M-98-MC-39-0209	14.239	16,669	16,669
HOME Investment Partnerships Program	M-99-MC-39-0209	14.239	147,942	147,942
HOME Investment Partnerships Program	M-00-MC-39-0209	14.239	450,561	450,561
HOME Investment Partnerships Program	M-01-MC-39-0209	14.239	486,861	486,861
HOME Investment Partnerships Program	M-02-MC-39-0209	14.239	64,971	55,689
Subtotal			1,167,004	1,157,722
CDBG Economic Development Initiati	B-00-SP-OH-0455	14.246	333,315	333,315
Total US Dept of Housing and Urban Development			6,890,924	8,276,677
<u>US DEPARTMENT OF JUSTICE</u>				
<i>Direct Programs</i>				
Local Law Enforcement Block Grants Program	02-LB-BX-2765	16.592	124,074	35,153
COPS Universal Hiring Grant	97-UM-WX-0661	16.710	325,856	325,856
<i>Passed Through Governor's Office of Criminal Justice Services</i>				
Juvenile Diversion Grant	JB-013-A048	16.523	239,688	231,897
Violence Against Women Formula Grants	WF-VA6-8220	16.588	13,564	13,564
Weed and Seed Grant	WS-QX-0010	16.595	163,573	186,567
Total US Department of Justice			866,755	793,037
<u>US DEPARTMENT OF TRANSPORTATION</u>				
<i>Passed thru Ohio Dept of Transportation</i>				
High Planning and Construction	G-000-443	20.205	31,331	31,331
State and Community Highway Safety	AG-1824	20.600	24,719	24,719
Alcohol Traffic Safety & Drunk Driving Prevention	AG-1807	20.601	29,632	29,632
Total US Department of Transportation			85,682	85,682

CITY OF YOUNGSTOWN
MAHONING COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>US ENVIRONMENTAL PROTECTION AGENCY</u>				
<i>Passed thru Ohio Environmental Protection Agency</i>				
Air Pollution Control Program Support	SFY 2001-2	66.001	254,334	254,334
Brownfield Pilot Cooperative Agreement	BP-9855910--01	66.811	79,001	91,028
<i>Total US Environmental Protection Agency</i>			333,335	345,362
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>				
<i>Direct Program</i>				
Assistance to Firefighters Grant	EMW-FG-18430	83.554	203,000	203,000
<i>Total Federal Emergency Management Agency</i>			203,000	203,000
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Ohio Department of Health</i>				
Immunization Action Plan Grant	50-2-1-P-AZ-GRF	93.268	129,469	133,674
Federal AIDS Prevention	50-2-1-P-AS-392	93.940	334,625	214,322
Sexually Transmitted Disease Control	50-2-01-2-BX-392	93.977	22,285	32,832
Maternal and Child Health Block Grant	50-2-01-F-AJ-320	93.994	11,270	5,582
Dental Sealant Grant	50-2-01-F-AJ-320	93.994	25,000	40,434
<i>Total US Department of Health and Human Services</i>			522,649	426,844
Total Receipts and Expenditures of Federal Awards			\$8,902,345	\$10,130,602

The accompanying notes are an integral part of this schedule.

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City of Youngstown's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B-- COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City of Youngstown has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible persons and to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City of Youngstown. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property and/or tangible personal property. At December 31, 2002, the net amount of loans outstanding under this program were \$4,528,731.

NOTE C -- MATCHING REQUIREMENTS

Certain Federal programs require that the City of Youngstown contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements for all federal financial assistance programs. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D -- COMMINGLING OF FEDERAL FUNDS

The City does not account for all federal grants in separate funds. Consequently, it is impracticable to specifically identify federal financial assistance program expenditures for each federal financial assistance program. Consequently, in certain cases, federal financial assistance expenditures reflected in the Schedule of Federal Awards Expenditures are based on the FIFO method, i.e. first in, first out.

NOTE E -- SUBRECIPIENTS

The City of Youngstown passes-through certain Federal assistance received from Community Development Block Grants and the HOME Investment Partnership Program to other governments or not-for-profit agencies (subrecipients). As described in Note A, the City of Youngstown records expenditures of Federal awards to subrecipients when paid in cash. It is not practicable to identify total amounts provided to subrecipients for each federal program.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Circular A-133, the City of Youngstown is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.



**Auditor of State
Betty Montgomery**

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

City of Youngstown
Mahoning County
26 South Phelps St.
Youngstown, Ohio 44503

To Members of Council:

We have audited the financial statements of the City of Youngstown (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated January 22, 2004. We did not audit the financial statements of the Western Reserve Transit Authority (WRTA), the discretely presented component unit of the City. Those financial statements were audited by other auditors. We also noted the City is experiencing certain financial difficulties. 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 City of Youngstown'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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-002 through 2002-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the City of Youngstown in a separate letter dated January 22, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Youngstown'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Youngstown's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2002-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2002-001 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City of Youngstown in a separate letter dated January 22, 2004.

This report is intended for the information and use of management, City Council and federal awarding agencies and pass-through entities, 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

January 22, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Youngstown
Mahoning County
26 South Phelps St.
Youngstown, Ohio 44503

To Members of Council:

Compliance

We have audited the compliance of the City of Youngstown with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. The City of Youngstown's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Youngstown's management. Our responsibility is to express an opinion on the City of Youngstown's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City of Youngstown's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Youngstown's compliance with those requirements.

In our opinion, the City of Youngstown complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to management of the City of Youngstown in a separate letter dated January 22, 2004.

Internal Control Over Compliance

The management of the City of Youngstown is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Youngstown's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 22, 2004

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505**

**CITY OF YOUNGSTOWN
MAHONING COUNTY
DECEMBER 31, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Community Development Block Grants/Entitlement Grants - CFDA #14.218 HOME Investment Partnerships Program - CFDA #14.239
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 303,918 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2002-001
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Reportable Condition/Material Weakness - Disbursements

The following weaknesses existed in the City’s disbursement cycle:

1. The City does not consistently apply the encumbrance method of accounting. We noted exceptions in 85% of the vouchers tested during the year, whereby direct pay orders and purchase orders were dated subsequent to the invoice date. We also noted exceptions in 60% of the vouchers tested for the months of January, February and March of 2003. These expenditures were for goods and services ordered and received in 2002, however purchase orders were not issued until 2003. Additionally, our testing indicated purchase orders were not authorized nor certified for all purchases. We noted that 100% of the vouchers tested during the year were not certified.
2. Packing slips or receiving slips were not always attached to vouchers as supporting documentation for payments. Of the vouchers tested, 43% were not stamped “received”. This weakness may result in payments to vendors for products or services which have been received in unsatisfactory condition or not received at all.
3. Invoices were not cancelled when paid. Of the sixty (60) invoices tested, fifty seven (57) were not cancelled when paid. This weakness could lead to duplicate payments to vendors or improper payments for merchandise never received or services not rendered.

To improve internal controls over the disbursement process we recommend the following:

1. Purchase requests should be certified by the fiscal officer and posted as encumbrances in the accounting system at the time the order is placed with the vendor. All purchase orders should be reviewed and approved by an appropriate official before any commitments or payments are made. Also, department heads should certify on the purchase order, or other voucher support documentation, that goods or services are received.
2. Payments should be made to vendors only with proper supporting documentation that the products were received in good order or that services were performed satisfactorily.
3. Invoices should be cancelled when paid.

Finding Number	2002-002
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Noncompliance Citation - Material Citation:

Ohio Revised Code Section 5705.10 provides that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit balance in any fund indicates that money from another fund or funds have been used to pay the obligations of the fund carrying the deficit balance. As of December 31, 2002, the following funds had negative cash balances:

Finding Number (Continued)	2002-002
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General Fund #001	(\$ 1,995,651)
Street Construction, Maintenance & Repair #106	(\$ 40,500)
Police Levy #109	(\$ 44,389)
Fire Levy #110	(\$ 539,207)
Water #103	(\$ 982,512)
Emergency 911 System #219	(\$ 33,705)
Wick Building #223	(\$ 4,495)
Capital Projects Public Works #250	(\$ 828,503)
Hospitalization #530	(\$ 691)
Litter Control Program #680	(\$ 81,291)
Federal Plaza Ad Hoc Committee #546	(\$ 4,638)
Juvenile Diversion #711	(\$ 34,332)

We also noted that during the course of our testing in the year under audit, deficit fund balances existed in numerous funds contrary to the aforementioned code section.

Finding Number	2002-003
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Noncompliance Citation - Material Citation:

Ohio Revised Code Section 5705.39, prohibits a political subdivision or taxing unit from making a fund appropriation in excess of the estimated revenue available for expenditure from that fund. The following funds were found to have appropriations in excess of the amount certified as available by the budget commission;

Fund Type/ Fund	Fund Number	Appropriations	Total Certified Resources	Variance
Special Revenue				
Park and Recreation	102	\$3,456,618	\$2,251,629	1,204,989
Street Fund	106	5,284,019	4,724,991	559,028
Police Levy Fund	109	15,805,527	15,591,303	214,224
Fire Levy Fund	110	10,357,591	10,064,498	293,093
Emergency 911 Fund	219	967,378	894,607	72,771
Demolition Fund	251	2,612,675	1,508,724	1,103,951
\$5 Auto License Fee	538	970,000	343,109	626,891
Federal Plaza	546	80,560	67,379	13,181
Air Pollution Control	601	807,209	423,823	383,386
HIV/AIDS Service Fund	642	41,449	4,863	36,586
Community Environment	651	45,013	35,127	9,886
Community AIDS Educ	663	303,791	235,544	68,247
Health Services for the Homeless	665	177,372	20,891	156,481
Litter Control Program	680	200,449	198,603	1,846
Infant Immunization	685	183,666	61,599	122,067
Vehicle Immobilization Fund	701	9,000	8,765	235
Weed and Seed Grant	710	379,249	156,515	222,734
Juvenile Diversion Grant	711	285,700	31,311	254,389

Finding Number (Continued)	2002-003
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Fund Type/ Fund	Fund Number	Appropriations	Total Certified Resources	Variance
CDA Block Grant Fund	901	15,134,979	7,685,728	7,449,251
Local Homes Trust	941	3,787,129	2,157,752	1,629,377
CDA Program Income	975	<u>695,185</u>	<u>512,090</u>	<u>183,095</u>
Total Special Revenue		61,584,559	46,978,851	14,605,708
Capital Projects				
Convocation Center				
Project Fund	249	26,695,429	5,010	26,690,419
Capital Projects Public				
Works	250	<u>4,035,575</u>	<u>2,307,050</u>	<u>1,728,525</u>
Total Capital Projects		30,731,004	2,312,060	28,418,944

Finding Number	2002-004
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Noncompliance Citation - Material Citation:

Ohio Revised Code Section 5705.41 (D) states that: “no subdivision or taxing unit shall make any contract or order involving the expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The amount so certified shall be recorded against the applicable appropriation account.

This section also provides two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon request of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the City may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than one thousand dollars the fiscal officer issues a certificate, but may authorize it to be paid without the affirmation of Council, if such expenditure is otherwise valid.

Of the sixty (60) expenditures examined in our disbursement testing, none were certified by the Finance Director.

We recommend, where possible, that the Finance Director, certify the availability of funds prior to expenditures being made. When prior certification is not feasible, we encourage the Finance Director to utilize Then and Now Certificates to ensure that purchases are certified upon entering into a contract or order involving the expenditure of the City’s money as per the requirements set forth in Ohio Revised Code Section 5705.41 (D).

**CITY OF YOUNGSTOWN
MAHONING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid
2001-001	Internal control weaknesses in the City disbursement cycle.	No	Not Corrected, Repeated
2001-002	Ohio Revised Code, Sections 5705.14 and 5705.15, provide authority to transfer monies, in that the City must first obtain approval from the Tax Commissioner and Court of Common Pleas. The City made transfers without obtaining the proper approval.	No	Repeated in Management Letter
2001-003	Ohio Revised Code, Section 5705.39, provides that appropriations not exceed amounts certified as available by the budget commission.	No	Not Corrected, Repeated
2001-004	Ohio Revised Code, Section 5705.41 (D), provides that no "subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate certifying that funds are in the treasury or in the process of collection."	No	Not Corrected, Repeated
2001-005	The CDA Monitoring/Compliance Supervisor did not perform the on-site monitoring visits for all subrecipients. The City did not ensure that all subrecipients obtain the required audits. Gleaners Food Bank did not have an independent audit performed, as per their agreement with the City. Gleaners Food Bank had ineligible costs of \$36,108, which were reimbursed by the City's Community Development Agency. This subrecipients reimbursable amount of \$36,108 was paid from Community Development Block Grant monies. Based on the foregoing facts, we reported a federal questioned cost in the amount of \$36,108.	Yes	Corrected - Check #89719, dated March 28, 2003 for \$36,108 was issued from the General Fund to the CDA Fund.

**CITY OF YOUNGSTOWN
MAHONING COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2002**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315 (c)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-001	<p>We believe that implementing a Central Purchasing system will substantially eliminate these problems. Once funds are available to hire additional staff, we intend to centralize the purchasing function and address and correct all the current weakness in the disbursement cycle.</p> <p>Cancellation of invoices will begin starting in November of 2003. Original invoices are stapled in a voucher packet along with the purchase order and copy of the check. Due to the current decentralized purchasing system, duplicate payments are made only when a department pays from an invoice and a statement, or an invoice and a copy.</p>	01/2005	Finance Director
2002-002	<p>In 2002 the City passed an additional ½% Income Tax increase. We believe that over a two-year period, we will generate enough revenue to resolve all outstanding year-end negative balances. Certain extraordinary events, Federal Disaster Flood Declaration, a tornado, and extreme 2002/2003 snowfalls have impacted the City's ability to move faster toward resolving negative balance issues.</p>	01/2005	Finance Director
2002-003	<p>The City agrees with this finding and in the future will adjust the certificate of available resources to appropriately reflect available balances. The variances described are not deficits.</p>	01/2004	Finance Director
2002-004	<p>The City agrees that the Director of Finance needs to certify the availability of funds prior to expenditure. We currently do not have the staffing to accomplish this task. When additional staffing if available, we will implement a system which complies with the applicable law.</p>	01/2004	Finance Director



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Betty Montgomery**

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CITY OF YOUNGSTOWN

MAHONING 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
MARCH 4, 2004**