CITY OF CLAYTON
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002

Auditor of State
Betty Montgomery

CITY OF CLAYTON
MONTGOMERY COUNTY

TABLE OF CONTENTS

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Clayton
Montgomery County
P.O. Box 280
Clayton, OH 45315-0280

To the Members of City Council:

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2003, 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.

Betty Montgomery

Betty Montgomery
Auditor of State

June 27, 2003

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CITY OF CLAYTON
MONTGOMERY COUNTY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
AS OF DECEMBER 31, 2002

	Governmental Fund Types			Proprietary Fund Type	Account Groups		
	General	Special Revenue	Capital Projects	Enterprise	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
Assets and Other Debits:							
Assets:							
Equity in Pooled Cash and Cash Equivalents	$899,789	$840,171	$416,146	$52,438			$2,208,544
Receivables:							
Property and Other Taxes	414,829	1,702,656					2,117,485
Increment Tax		66,500					66,500
Accounts	6,145			11,578			17,723
Special Assessments - Current	2,077	20,882		19,047			42,006
Special Assessments - Delinquent	57,534	2,407					59,941
Interfund Receivable	125,000						125,000
Due from Other Governments	272,250	294,282	129,064				695,596
Prepaid Items	23,515	57,788					81,303
Fixed Assets					3,729,546		3,729,546
Other Debits:							
Amount to be Provided From General Government Resources						250,841	250,841
Total Assets and Other Debits	1,801,139	2,984,686	545,210	83,063	3,729,546	250,841	9,394,485
Liabilities, Fund Equity and Other Credits:							
Liabilities:							
Accounts Payable	17,576	4,228					21,804
Contracts Payable			16,992				16,992
Interfund Payable			125,000				125,000
Accrued Wages	4,879	47,408					52,287
Accrued Interest Payable			6,667				6,667
Compensated Absences Payable	896	16,442				139,541	156,879
Due to Other Governments	3,270	29,312	82,744			76,137	191,463
Deferred Revenue	624,366	2,050,976	129,064				2,804,406
Note Payable			650,000				650,000
Capital Leases Payable						35,163	35,163
Total Liabilities	650,987	2,148,366	1,010,467			250,841	4,060,661
Fund Equity and Other Credits:							
Investment in General Fixed Assets					3,729,546		3,729,546
Retained Earnings:							
Unreserved				83,063			83,063
Fund Balance:							
Reserved for Encumbrances	68,376	167,156	75,923				311,455
Unreserved, Undesignated (Deficit)	1,081,776	669,164	(541,180)				1,209,760
Total Fund Equity (Deficit) and Other Credits	1,150,152	836,320	(465,257)	83,063	3,729,546		5,333,824
Total Liabilities, Fund Equity and Other Credits	$1,801,139	$2,984,686	$545,210	$83,063	$3,729,546	$250,841	$9,394,485

See Accompanying Notes to the General Purpose Financial Statements.

CITY OF CLAYTON
MONTGOMERY 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
	General	Special Revenue	Capital Projects	(Memorandum Only)
Revenues:				
Property and Other Taxes	$370,702	$1,868,403		$2,239,105
Intergovernmental	910,547	602,804	$183,602	1,696,953
Special Assessments	11,911	19,145		31,056
Charges for Services	20,724	219,568		240,292
Licenses and Permits	10,806	21,112		31,918
Investment Income	58,746	22,432		81,178
Contributions	2,820	74,892		77,712
Other	9,457	28,554		38,011
Total Revenues	1,395,713	2,856,910	183,602	4,436,225
Expenditures:				
Current:				
Security of Persons and Property		2,127,539		2,127,539
Public Health		3,410		3,410
Community Environment	86,588			86,588
Transportation		785,432		785,432
General Government	774,318	13,726		788,044
Capital Outlay	19,990	307,980	477,720	805,690
Debt Service:				
Principal Retirement	15,866	67,627		83,493
Interest and Fiscal Charges	1,159	4,129	16,260	21,548
Total Expenditures	897,921	3,309,843	493,980	4,701,744
Excess of Revenues Over (Under) Expenditures	497,792	(452,933)	(310,378)	(265,519)
Other Financing Sources (Uses):				
Proceeds from Sale of Fixed Assets		4,074		4,074
Operating Transfers - In		337,500		337,500
Operating Transfers - Out	(337,500)			(337,500)
Total Other Financing Sources (Uses)	(337,500)	341,574		4,074
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	160,292	(111,359)	(310,378)	(261,445)
Fund Balances (Deficit) at Beginning of Year - Restated (Note 4)	989,860	947,679	(154,879)	1,782,660
Fund Balances (Deficit) at End of Year	$1,150,152	$836,320	($465,257)	$1,521,215

See Accompanying Notes to the General Purpose Financial Statements.

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CITY OF CLAYTON
MONTGOMERY COUNTY

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

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property and Other Taxes	$363,713	$363,713	
Intergovernmental	953,204	969,630	$16,426
Special Assessments	11,911	11,911	
Charges for Services	20,000	20,724	724
Licenses and Permits	10,806	10,806	
Investment Income	54,173	54,173	
Contributions	2,820	2,820	
Other	10,777	10,053	(724)
Total Revenues	1,427,404	1,443,830	16,426
Expenditures:			
Current:			
Security of Persons and Property			
Public Health			
Community Environment	88,887	88,887	
Transportation			
General Government	828,989	870,314	(41,325)
Capital Outlay	16,765	19,990	(3,225)
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Total Expenditures	934,641	979,191	(44,550)
Excess of Revenues Over (Under) Expenditures	492,763	464,639	(28,124)
Other Financing Sources (Uses):			
Proceeds from Sale of Notes			
Proceeds from Sale of Fixed Assets			
Advances - In			
Advances - Out	(125,000)	(125,000)	
Operating Transfers - In			
Operating Transfers - Out	(337,500)	(337,500)	
Total Other Financing Sources (Uses)	(462,500)	(462,500)	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	30,263	2,139	(28,124)
Fund Balances at Beginning of Year	782,961	782,961	
Prior Year Encumbrances Appropriated	24,056	24,056	
Fund Balances (Deficit) at End of Year	$837,280	$809,156	($28,124)

See Accompanying Notes to the General Purpose Financial Statements.

Special Revenue Funds			Capital Projects Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
$2,095,993	$1,868,507	($227,486)			
354,844	608,906	254,062	$220,683	$220,683	
19,560	19,145	(415)			
211,220	245,859	34,639			
14,000	19,307	5,307			
30,912	22,432	(8,480)			
92,802	97,933	5,131			
16,046	28,554	12,508			
2,835,377	2,910,643	75,266	220,683	220,683	
2,320,666	2,236,568	84,098			
13,200	14,270	(1,070)			
937,148	897,261	39,887			
27,452	27,452				
311,329	307,980	3,349	333,977	536,685	(202,708)
			650,000	650,000	
			18,355	18,355	
3,609,795	3,483,531	126,264	1,002,332	1,205,040	(202,708)
(774,418)	(572,888)	201,530	(781,649)	(984,357)	(202,708)
			650,000	650,000	
2,773	4,074	1,301			
			125,000	125,000	
337,500	337,500				
340,273	341,574	1,301	775,000	775,000	
(434,145)	(231,314)	202,831	(6,649)	(209,357)	(202,708)
794,505	794,505		465,599	465,599	
109,000	109,000		83,977	83,977	
$469,360	$672,191	$202,831	$542,927	$340,219	($202,708)

CITY OF CLAYTON
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

	Water Fund
Operating Revenues:	
Charges for Services	$19,816
Tap-In Fees	41,631
Total Operating Revenues	61,447
Operating Expenses	
Net Income	61,447
Retained Earnings at Beginning of Year	21,616
Retained Earnings at End of Year	$83,063

See Accompanying Notes to the General Purpose Financial Statements.

CITY OF CLAYTON
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS)
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Charges for Services	$8,238	$8,238	
Tap-in Fees	22,584	22,584	
Total Revenues	30,822	30,822	
Total Expenses			
Excess of Revenues Over Expenses	30,822	30,822	
Fund Equity at Beginning of Year	21,616	21,616	
Fund Equity at End of Year	$52,438	$52,438	$0

See Accompanying Notes to the General Purpose Financial Statements.

CITY OF CLAYTON
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

Increase (Decrease) in Cash and Cash Equivalents:	**Water Fund**
Cash Flows from Operating Activities	
Cash Received from Customers	$30,822
Net Increase in Cash and Cash Equivalents	30,822
Cash and Cash Equivalents Beginning of Year	21,616
Cash and Cash Equivalents End of Year	$52,438
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$61,447
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets:	
(Increase) in Accounts Receivable	(11,578)
(Increase) in Special Assessments Receivable	(19,047)
Net Cash Provided by Operating Activities	$30,822

See Accompanying Notes to the General Purpose Financial Statements.

1. DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Clayton ("The City") was formed January 1, 1998, as a result of a merger approved by the voters of Randolph Township and the Village of Clayton in an election held November 1997. Randolph Township was founded in 1804 from the original Elizabeth Township. The Village of Clayton was incorporated in 1942. The newly merged City continued as a statutory village until the 1998 General Election when Clayton became a city. The voters of the City approved a charter in May 1999 under which the City continues to operate.

The City charter calls for a Council-Manager form of government. The Council consists of seven members, a Mayor, three at-large Council members and three ward representatives. The City elects the three ward representatives in one election cycle, with the Mayor and the at-large members elected two years later. They serve as the legislative body and are governed by the provisions of the charter. All council members, including the Mayor, are elected to four year terms.

The City Council, by majority vote, appoints the City Manager who serves as chief executive officer. The City Manager is responsible for appointing and removing all other full and part-time city employees.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, and activities which are not legally separate from the City. They comprise the City’s legal entity which provides various services including police, fire, emergency medical, planning and zoning, street construction, maintenance and repair, administrative services and water services. Council and the City Manager have direct responsibility for these activities.

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 provide financial support to the organization; or the City is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent on the City in that the City approves the organization’s budget, the issuance of its debt or the levying of its taxes. The City does not have any component units included in its reporting entity.

The City participates in two jointly governed organizations, the Miami Valley Regional Planning Commission (the “Commission”) and the Economic Development/Government Equity Program (“ED/GE”). A jointly governed organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility on the part of the participating governments. These organizations are presented in Note 17 to the general purpose financial statements.

The City participates in two insurance purchasing pools, the Ohio Government Risk Management Plan (the “Plan”), and the Ohio Municipal League of Ohio Workers’ Compensation Group Rating Plan (the “Plan”). An insurance purchasing pool is an organization with a group of governments to pool funds or resources to purchase commercial insurance policies. These organizations are presented in Note 18 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Clayton have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government 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 its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The most 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 on 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 available expendable 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 of governmental and proprietary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the City 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 Enterprise Fund) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - The General Fund is the 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 general laws of Ohio and the Charter of the City.

Special Revenue Funds - The Special Revenue funds are used to account for revenues derived from specific taxes, grants, or other sources (other than amounts relating to major capital projects) whose use is restricted. The uses and limitations of each Special Revenue fund are specified by City ordinances or federal and state statutes.

Capital Projects Funds - The Capital Projects 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 the Enterprise Fund).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Type

The Proprietary Fund is used to account for the City's ongoing activity which is similar to those often found in the private sector. The following is the proprietary fund type utilized by the City.

Enterprise Fund – This fund is used to account for the City's water operations. They are financed and operated in a manner similar to private sector business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

3. 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 fixed assets accounted for in the enterprise fund.

General Long-Term Obligations Account Group - The General Long-Term Obligations Account Group is used to account for all un-matured long-term obligations of the City that are not a specific liability of the Enterprise Fund.

B. 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.

The Enterprise Fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Enterprise Fund operating statements present increases (e.g., revenues) and decreases (e.g., 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 funds. The full accrual basis of accounting is followed for the Enterprise Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements, shared revenues and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7.) Revenue from grants, entitlements and donations is recognized in the 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 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 year-end: state-levied locally shared taxes (including gasoline tax), grants, franchise fees, charges for services, and certain miscellaneous revenues.

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

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.

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

C. Budgetary Process

The City follows these procedures in establishing the budgetary data reported in the combined financial statements:

1. Tax Budget

A tax budget of estimated revenues and expenditures for all budgeted funds is 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. All funds are legally required to be budgeted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates 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.

On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. Further amendments may be made during the year if the Finance Director determines that revenue to be collected will be greater than or less than the current estimates, and the budget commission finds the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

3. Appropriations

An appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds, except agency funds, must legally enacted on or about January 1. Appropriations may not exceed estimated resources as established in the Official Amended Certificate of Estimated Resources. Supplemental appropriations may be adopted by Council action. Amounts shown in the financial statements represent the appropriated budgeted amounts and all supplemental appropriations passed during the year. Several supplemental appropriations measures were legally enacted during 2002 by Council.

4. Budgeted Level of Expenditure

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. The legal level of budgetary control is at the fund level. The appropriations set forth by Council remain fixed unless amended by Council ordinance. More detailed appropriation allocations may be made by the Finance Director as long as the allocations are within Council’s appropriated amount.

5. Encumbrances

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. 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 re-appropriated.

D. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's 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 STAR Ohio, a mutual fund, a FNMA note, and a repurchase agreement.

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2002.

The City Council has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during 2002 amounted to $58,746 which includes $48,430 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments with original maturities of three months or less, and investments from the City's cash management pool are considered to be cash equivalents.

E. 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 purchase and an expenditure or expense is reported in the year in which services are consumed.

F. Fixed Assets

All purchased fixed assets are valued at cost when historical records are available and estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The City maintains a capitalization threshold of $1,000.

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.

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, gutters, sidewalks, street lights, traffic signals, fire hydrants, and drainage systems are not capitalized or reported as these assets are immovable and of value only to the City.

The Enterprise Fund has no fixed assets. There is no construction-in-progress for the City of Clayton since the City of Dayton is constructing the water lines. The City of Dayton will retain ownership of the water lines for Phase I of the project. For Phase II, construction began at the end of 2002. A portion of the water lines from Phase II will be owned by the City of Clayton after the City of Dayton donates the lines. Tap-in fees are due upon completion of Phase II of the project. Tap-in fees that were collected in 2002 were for taps that were completed in 2002. The tap-in fees will eventually be remitted to the City of Dayton once the project is completed.

G. Compensated Absences

Vacation and compensatory time 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 and compensatory time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The City records a liability for accumulated unused sick leave for all employees who have ten years of service with the City. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

For governmental funds, the current portion of unpaid compensated absences is the amount to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the individuals who have accumulated unpaid leave are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. There are no compensated absences payable in the Enterprise Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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, compensated absences and contractually required pension obligations are reported as a liability in the General Long-Term Obligations Account Group to the extent they will not be paid with current available expendable financial resources. Payments made more than thirty-one days after year-end are generally considered not to have been paid using current available financial resources. Capital leases are recognized as a liability of the General Long-Term Obligations Account Group until due.

The Enterprise Fund has no long-term obligations.

I. Reserves Of Fund Equity

Reserves of fund equity indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific use. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Fund balances are reserved for encumbrances.

J. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements 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 as reductions 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.

K. Estimates

The preparation of 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.

L. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements overview are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations 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.

3. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2002, the St. Rt. 48 Improvement, Irvington Storm Water, and Westbrook Road/St. Rt. 48 Capital Projects Funds had deficit fund balances of $331,598, $106,648, and $27,011. The General Fund transfers monies to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The deficit in the St. Rt. 48 Improvement Capital Projects Fund arose from the requirement to report bond and revenue anticipation note liabilities in the fund which received the note proceeds. The deficit will be alleviated when the bonds are issued or when the notes are paid.

B. Compliance

The following funds had an excess of expenditures and encumbrances over appropriations at December 31, 2002:

Fund Type / Name	Appropriations	Expenditures and Encumbrances	Excess
General Fund	$1,397,141	$1,441,691	($44,550)
Special Revenue:			
EMS Fund	510,711	683,607	(172,896)
Cemetery Fund	13,800	14,270	(470)
State Highway Fund	31,533	35,024	(3,491)
Capital Projects:			
Westbrook Road/State Route 48 Fund	82,377	303,060	(220,683)

The following funds had an excess of appropriations over estimated resources plus unencumbered cash at December 31, 2002:

Fund Type / Name	Estimated Resources and Unencumbered Cash	Appropriations	Excess
Special Revenue:			
Fire Fund	$558,603	$567,575	($8,972)
Permissive Motor Vehicle Fund	213,071	232,743	(19,672)

4. RESTATEMENT OF PRIOR YEAR FUND EQUITY

A. In the prior year's report, the Capital Projects Fund listed an intergovernmental receivable of $28,824 in error. The correction of that error affected the Capital Projects Fund deficit at 12/31/01 by decreasing it from ($126,055), to ($154,879).

B. In the prior year's report, the 12/31/01 fixed asset balances of $161,533 in Land, and $1,891,154 in Vehicles, and $644,924 in Equipment were in error. A correction of these errors increased Land by $65,824 to $227,357 and Equipment by $17,659 to $662,583. The correction of these errors decreased Vehicles by $59,089 to $1,832,065.

5. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, appropriations and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budget Basis) - All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity – Budget and Actual (Budget Basis) - Enterprise Fund are 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 basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Outstanding year-end encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types or note disclosure in the enterprise fund (GAAP basis).

4. Advances are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

5. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as a balance sheet transaction (GAAP basis).

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

Excess Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses All Governmental Fund Types

	General	Special Revenue	Capital Projects
GAAP Basis	$160,292	($111,359)	($310,378)
Increases (decreases) Due To:			
Revenue Accruals	42,755	53,733	37,081
Expenditure Accruals	(2,216)	(16,827)	14,867
Outstanding Encumbrances	(85,271)	(167,980)	(75,924)
Principal Payments	0	0	(650,000)
Proceeds from Sale of Notes	0	0	650,000
Prepaid Items	6,217	11,119	0
Unrecorded Cash	5,362	0	0
Advances	(125,000)	0	125,000
Budget Basis	$2,139	($231,314)	($209,357)

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Income/Excess Of Revenues Over Expenses
Proprietary Fund Type

	Water Fund
GAAP Basis	$61,447
Decreases Due To:	
Revenue Accruals	(30,625)
Budget Basis	$30,822

6. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Finance Director 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.

Inactive monies are permitted to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to 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;

6. DEPOSITS AND INVESTMENTS (Continued)

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).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;

2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and

3. Obligations of the City.

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 Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

A. Deposits

At year-end, the carrying amount of the City's deposits was $176,829, and the bank balance was $404,406. Of the bank balance, $100,000 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the balance was collateralized by securities held by the financial institutions; trust departments in the City's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

6. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the City's investments be classified in categories of risk. The City's investments are categorized as either (1) insured or registered or for which the securities are held by the City or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the City's name or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

	Category 1	Category 2	Category 3	Fair Value
STAR Ohio	$0	$ 0	$0	$650,199
Fifth Third Savings	0	0	593,154	593,154
FNMA Note	0	417,560	0	417,560
Fifth Third Mutual Fund	0	0	10,959	10,959
Repurchase Agreement	0	0	359,843	359,843
Total	$0	$417,560	$963,956	$2,031,715

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, "Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Government Entities that use Proprietary Fund Accounting." Cash equivalents are defined to include investments with original maturities of three months or less, and the City's cash management pool. The open-end mutual fund and STAR Ohio, an investment fund operated by the Ohio State Treasurer, are classified since it is not evidenced by securities that exist in physical or book entry form.

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	$2,208,544	$0
STAR Ohio	(650,199)	650,199
Fifth Third Savings	(593,154)	593,154
FNMA Note	(417,560)	417,560
Fifth Third Mutual Fund	(10,959)	10,959
Repurchase Agreement	(359,843)	359,843
GASB Statement No. 3	$176,829	$2,031,715

7. PROPERTY TAXES

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 utility property taxes represents collections of the 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

7. PROPERTY TAXES (Continued)

2002 real property taxes are levied after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market 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 become a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2002 was $12.58 per $1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Category	Assessed Value	Percent
Real Estate	$234,642,230	96.20%
Public Utility Property	6,969,700	2.86%
Tangible Personal	2,287,021	0.94%
Total Property Taxes	$243,898,951	100.00%

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 by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Clayton. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represent real and tangible personal property taxes, public utility 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.

8. RECEIVABLES

Receivables at December 31, 2002, consisted of property and other taxes, increment tax, accounts, special assessments, and monies due from other governments arising from grants, entitlements, and shared revenues. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivables follows:

Fund Type/Fund	Amount
General Fund:	
Economic Development/Government Equity	$13,130
Local Government	185,950
Homestead and Rollback	20,851
Estate Taxes	52,319
Total General Fund	272,250
Special Revenue Funds:	
Police Fund	
Homestead and Rollback	69,297
Court Fines	1,780
S.T.E.P. Grant	1,264
Total Police Fund	72,341
Emergency Medical Services Fund	
EMS Grant	2,440
Homestead and Rollback	12,004
Total Emergency Medical Services Fund	14,444
Fire Fund	
Homestead and Rollback	27,610
Street Fund	
Gasoline Tax	116,176
Motor Vehicle License	50,182
Total Street Fund	166,358
State Highway Fund	
Gasoline Tax	9,401
Motor Vehicle License	4,068
Total State Highway Fund	13,469

(continued)

8. RECEIVABLES (Continued)

	Amount
Drug Law Enforcement Fund	
Court Fines	60
Total Special Revenue Funds	$294,282
Capital Projects Fund:	
State Route 48 Improvement	
Economic Development/Government Equity Grant	$5,007
Issue II Grant	24,057
Total State Route 48 Improvement	29,064
Irvington Storm Water Fund	
CDBG Grant	100,000
Total Capital Projects Fund	129,064
Total All Funds	$695,596

A. Increment Tax Receivable

The City granted real property tax exemptions to landowners for improvements made to the properties. The City requires the owners to make an annual payment to the City in lieu of taxes in the amount that would be payable on the increase in the value of the property but for the exemption. The City then uses these monies to pay for public infrastructure improvements benefiting the owners. Additional payments are made to the School District since it is impacted by the tax exemption for a period of up to thirty years, commencing with the 1999 tax year and ending no later than December 16, 2029. The City accrues a receivable for the amount owed to the City with a corresponding credit to deferred revenue. The receivable represents amounts measurable at December 31, 2002. The City is not able to record a receivable for all future payments because the payments are based upon projected collections. Due to an agreement with the Northmont City School District, the City also records a liability, due to other governments, for the monies owed to the School District.

9. FIXED ASSETS

Changes in general fixed assets during the year ended December 31, 2002, were as follows:

Asset Category	Balance at 12/31/01	Additions	Deletions	Balance at 12/31/02
Land	$227,357	$0	$0	$227,357
Building	843,416	0	117,036	726,380
Improvements Other Than Buildings	10,418	0	0	10,418
Furniture and Fixtures	72,560	1,639	0	74,199
Vehicles	1,832,065	368,444	168,856	2,031,653
Equipment	662,583	24,459	27,503	659,539
Total Fixed Assets	$3,648,399	$394,542	$313,395	$3,729,546

10. DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by 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.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll, decreased from 9.25 percent in 2001. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were $125,265, $142,315, and $95,263, respectively. The full amount has been contributed for 2001 and 2000. The amount contributed for 2002 was 72 percent with the remainder being reported as a fund liability and within the General Long-Term Obligations Account Group.

B. Ohio Police And Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. 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 the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police and 16.5 percent for firefighters. For 2001, the City's contributions were 12.00 percent for police and 16.50 percent for firefighters.

Contributions are authorized by state statute. The City's contributions to the OP&F for police and firefighters were $28,534 and $49,459 for the year ended December 31, 2002, $13,113 and $37,359 for the year ended December 31, 2001, and $8,560 and $40,487 for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. 77 percent for both have been contributed for 2002 with the remainder being reported as a liability in the general long-term obligations account group.

11. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (Pers)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten 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 as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion that was used to fund health care for 2002. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

The number of active contributing participants was 402,041. The City's actual contributions for 2002 which were used to fund postemployment benefits were $63,975. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were $11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $16.4 billion and $4.8 billion, respectively.

In December 2001, the 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.

B. Ohio Police And Fire Pension Fund

The Ohio Police and Fire Pension Fund (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.

11. POSTEMPLOYMENT BENEFITS (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2002. For 2001, the percent to fund health care was 7.5 percent. 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 City's actual contributions for 2002 that were used to fund postemployment benefits were $18,820 for police and $22,481 for fire. The OP&F's total health care expense for the year ended December 31, 2001, (the latest information available) was $122,298,771, which was net of member contributions of $6,874,699. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001, was 13,174 for police and 10,239 for firefighters.

12. OTHER EMPLOYEE BENEFITS

A. Deferred Compensation

City employees may participate in the Ohio Public Employees Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

B. Compensated Absences

City employees earn vacation leave at varying rates based upon length of service. Upon departure from City employment, an employee (or their estate) will be paid for unused vacation leave.

City employees earn sick leave at varying rates based upon length of service. In the case of retirement, employees with ten years of service with the City will be paid one hour of pay for each four hours worked of their accumulated sick leave up to 240 hours, based on the union agreements and the City's personnel policy.

City employees can also earn compensatory time. Compensatory time is paid at one and one-half times an employee's regular rate. Employees with time remaining upon termination of their employment will be paid for any unused compensatory time.

C. Insurance

Medical/surgical and vision benefits are provided to full-time City employees. The provider of these benefits is Anthem Blue Cross/Blue Shield. The City pays 100 percent of the single plan monthly premiums and 90 percent of the additional cost of the family plan premium. The premium varies with each employee depending on the plan and coverage selected. Life insurance is provided through Anthem Life. All employees of the City receive $50,000 in life insurance. Group dental insurance is provided through The Guardian.

13. CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the City has entered into capitalized leases for the purchase of equipment. Each lease meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of equipment have been capitalized in the General Fixed Assets Account Group in the amount of $244,842. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in 2002 totaled $83,493 in the General Fund and the Special Revenue funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2002:

Year Ending December 31,	GLTDAG
2003	$34,353
2004	1,965
Total	36,318
Less: Amount Representing Interest	(1,155)
Present Value of Net Minimum Lease Payments	$35,163

14. LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2002 were as follows:

Types/Issues	Balance 12/31/01	Issued	Retired	Balance 12/31/02
Compensated Absences	$144,829	$0	$5,288	$139,541
Due to Other Governments	67,933	76,137	67,933	76,137
Capital Leases	118,656	0	83,493	35,163
Total General Long-Term Obligations	$331,418	$76,137	$156,714	$250,841

Compensated absences and the amounts due to other governments will be paid from the funds from which the employees' salaries are paid. Capital lease obligations will be paid from the General Fund and the Street and Police Special Revenue Funds. The due to other governments liability represents contractually required pension contributions paid outside the available period.

The City's overall legal debt margin was $24,637,434 at December 31, 2002, and the unvoted debt margin was $12,905,323.

15. NOTE OBLIGATION

During 2002, the City rolled over a 2.60 percent revenue anticipation note issued for improvements to State Route 48 in the amount of $650,000. The liability is recorded in the State Route 48 Improvement Capital Projects Fund, the fund which received the note proceeds. The note matures on August 8, 2003.

16. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters.

For 2002, the City participated in the Ohio Government Risk Management Plan (the “Plan”), an insurance purchasing pool. (See Note 18) The City pays its annual premium to its agent, Swartzel Insurance Services. Coverage is as follows:

Type of Coverage	Coverage	Deductible
Municipal General Liability (per Occurrence/aggregate)	$3,000,000/$5,000,000	$0
Public Official and Police Professional (per Occurrence/aggregate)	3,000,000/5,000,000	2,500
Municipal Automobile Liability (per Occurrence)	3,000,000	0
Building and Contents	2,189,714	1,000
Inland Marine	550,006	1,000
Electronic Data Processing	54,550	500

Settled claims have not exceeded this coverage in any of the past three years. There has been no material change in this coverage from the prior year.

For 2002, the City participated in the Ohio Municipal League of Ohio Workers’ Compensation Group Rating Plan (Plan), an insurance purchasing pool (Note 18). The intent of the Plan is to achieve lower workers’ compensation rates while establishing safe working conditions and environments for the participants. The workers’ compensation experience for the participating counties is calculated as one experience and a common premium rate is applied to all entities in the Plan. Each participant pays its workers’ compensation premium to the State based on the rate for the Plan rather than its individual rate.

17. JOINTLY GOVERNED ORGANIZATIONS

The Miami Valley Regional Planning Commission (the Commission) is a jointly governed organization between Preble, Clark, Clinton, Darke, Greene, Miami and Montgomery Counties, the City of Clayton, the City of Huber Heights, the City of Riverside, the City of New Carlisle, and the City of Dayton. The Commission prepares plans, including studies, maps, recommendations, and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions, and services of the region. These reports show recommendations for systems of transportation, highways, parks and recreational facilities, water supply, sewage disposal, garbage disposal, civic centers, and other public improvements and land uses which affect the development of the region.

17. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The degree of control exercised by any participating government is limited to its representation on the Board. Members of the Board are as follows: the officers of the Commission (elected by member representatives), the immediate past Chair of the Commission, the Commission member representing the City of Dayton, the Commission member representing each of the respective member counties, the representatives selected by each county caucus, a nongovernmental member, and two at-large representatives. Payments to the Commission are made from the General Fund. The City contributed $6,140 for the operation of the Commission during 2002. Financial information may be obtained by writing to Nora Lake, Executive Director, 40 West Fourth Street, Dayton, Ohio 45402.

The Economic Development/Government Equity Program (ED/GE) was established pursuant to Ohio Revised Code Chapter 307 for the purpose of developing and promoting plans and programs designed to assure that County resources are efficiently used, economic growth is properly balanced, and that county economic development is coordinated with that of the State of Ohio and other local governments. Members include villages, townships, and cities within Montgomery County, and Montgomery County itself. Cooperation and coordination between the members is intended to promote economic health and improve the economic opportunities of the people in Montgomery County by assisting in the establishment or expansion within the County of industrial, commercial or research facilities and by creating and preserving job and employment opportunities for the people of the County.

The ED/GE Advisory Committee, made up of alternating member entities' representatives, decides which proposed projects will be granted each year. Sales tax revenues, set aside by Montgomery County, are used to fund the projects. Members annually contribute to or receive benefits based on an elaborate zero-based formula designed to distribute growth in contributing communities to those communities experiencing less economic growth. The City has agreed to be a member for ten years, ending December 31, 2010. No new agreement has been entered into yet. Any member in default of paying its contributions will be liable for the amount of the contribution, any interest accrued, and penalties. During this time, the member will not be entitled to any allocations from ED/GE. Payments to ED/GE are made from the general fund. The City was not required to make a contribution to ED/GE during 2002. Financial information may be obtained by writing to Linda Gum, Administrative Assistant, 451 West Third Street, Dayton, Ohio, 45422.

18. INSURANCE PURCHASING POOLS

The City belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

18. INSURANCE PURCHASING POOLS (Continued)

The Plan uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first $500,000 casualty treaty (up to $25,000 of a loss) and 5% of the first $1,000,000 property treaty (up to $50,000 of a loss). The Plan also participates in a loss corridor in its first $500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% or premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

For 2002, the City participated in the Ohio Municipal League of Ohio Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants.

Participation in the plan is limited to cities that can meet the Plan's selection criteria. The firm of Gates McDonald provides administrative, cost control, and actuarial services to the Plan. Each year, the City pays an enrollment fee to the Plan to cover the costs of administering the program.

The City may withdraw from the Plan if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay amounts owed to the Plan prior to withdrawal, and any participant leaving the Plan allows the representative of the Plan to access experience for three years following the last year of participation.

19. CONTINGENT LIABILITIES

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 designees. 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.

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

20. CONTRACTUAL COMMITMENTS

The City of Clayton has entered into a twenty year agreement in 2001 with the City of Dayton for water services. Under the terms of the agreement, the City of Dayton is installing a trunk water main and feeder mains to provide water to residents of the City of Clayton. The City of Dayton will be responsible for the maintenance and repair of the water main. The City of Dayton will bill the City of Clayton quarterly for water used. The City of Clayton will get electronic data from the City of Dayton on individual usage that they can use to bill the individual users.

As of December 31, 2002, the City had contractual purchase commitments as follows:

Company	Project	Contract Amount	Amount Expended	Balance at 12/31/02
Associated Excavating	Professional Services	$123,974	$24,541	$99,433
Edwards and Kelsey	Professional Services	100,000	5,218	94,782
R.G. Jerginson	Professional Services	89,000	40,446	48,554

21. SUBSEQUENT EVENTS

A. An income tax levy of 1.5% was approved by the Council on February 6, 2003. In the April 3, 2003 meeting it was stated that if the levy was adopted, the Fire, EMS, and Police levies on the November 2003 ballot would be renewals instead of replacement levies. In addition, a $50.00 annual property tax credit would be given to citizens 65 and older who own their residence. The income tax levy was passed in the election on May 6, 2003.

B. On March 6, 2003, the Council passed Ordinance No. O-03-03-05, “An Ordinance Authorizing the Issuance of Notes in the Amount of Not to Exceed $950,000 in Anticipation of the Issuance of Bonds for the Purpose of Improving State Route 48 by Constructing Curbs, Gutters, and Sidewalks, Acquiring Real Estate, and Preparing the Site thereof, Relocating and Extending Existing Utilities, Installing Street Lighting, and Other Related Infrastructure Improvements and Approving a Note Purchase Agreement Appropriate for the Sale of the Notes.

Auditor of State
Betty Montgomery

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

City of Clayton
Montgomery County
P.O. Box 280
Clayton, OH 45315-0280

To the Members of City Council:

We have audited the financial statements of the City of Clayton, Montgomery County, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated June 27, 2003. 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'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 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated June 27, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 in a separate letter dated June 27, 2003.

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

Betty Montgomery
Auditor of State

June 27, 2003

CITY OF CLAYTON
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2002-001

The Charter for the City of Clayton, Ohio, Article 8.02 (E) and (F) states that no contract, agreement or other contractual obligation involving the expenditure of money shall be entered into or authorized by the City Manager, unless the Finance Director or his duly authorized representative shall first certify the following:

1) That the money required for such contract, agreement, obligation or expenditure is in the City's treasury or in the process of collection thereto; and
2) That the money has been appropriated by Council for the specified purpose and it remains free from any previous encumbrance.

This section also states that the certification as to the availability of funds and the appropriations of funds shall be filed and recorded in the accounting records of the City and a copy furnished the vendor or contractor. Without the certification, contractual obligations shall be unenforceable against the City, unless recognized by Council as a moral obligation pursuant to the adoption of an ordinance or resolution.

During the audit period, 26.67% of disbursement transactions tested were not certified prior to the obligation. Failure to certify obligations prior to incurring the obligations could result in deficit spending by the City. The City should comply with the City Charter by certifying the funds are available before obligations are incurred.

FINDING NUMBER 2002-002

Ohio Rev. Code Section 5705.41(B) prohibits expenditures unless the funds have been properly appropriated. This prohibits a subdivision from making expenditures unless it is within the amounts appropriated.

The following funds had expenditures in excess of appropriations at year end:

Fund	Appropriations	Expenditures	Variance
General Fund	$1,397,141	$1,441,691	($44,550)
EMS Fund	510,711	683,607	(172,896)
State Highway Fund	31,533	35,024	(3,491)
Cemetery Fund	13,800	14,270	(470)
Westbrook Road/State Route 48 Fund	82,377	303,060	(220,683)

The Finance Director and Council should monitor the City budgetary financial reports throughout the year so that budgetary expenditures do not exceed the appropriations at the legal level of control. In instances where appropriations are insufficient to meet the projected needs, the City Council should pass a resolution to amend appropriations after determining that sufficient estimated resources are available.

The variance in the Westbrook Road/State Route 48 Fund was the result of "on-the-behalf-of" payments from the Ohio Public Works Commission for which the City did not pass a resolution amending its appropriations measure per Auditor of State Bulletin 2000-008.

CITY OF CLAYTON
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2001-20357-001	Ohio Rev. Code Section 5705.39, appropriations in excess of available resources.	No	Partially corrected, will be re-issued as a management letter comment.
2001-20357-002	The Charter for Clayton, Ohio, Article 8.02 (E) and (F). Failure to certify funds.	No	Will be repeated as Finding Number 2002-001.

Auditor of State
Betty Montgomery

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CITY OF CLAYTON

MONTGOMERY 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
SEPTEMBER 2, 2003