CITY OF CLAYTON
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003

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

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, 2003, 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, 2003, 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 August 17, 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.

Betty Montgomery

Betty Montgomery
Auditor of State

August 17, 2004

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CITY OF CLAYTON
MONTGOMERY COUNTY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
AS OF DECEMBER 31, 2003

	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	$642,899	$1,262,461	$543,045	$53,076			$2,501,481
Receivables:							
Property and Other Taxes	466,145	1,731,692					2,197,837
Increment Tax		62,064					62,064
Accounts	29,032	29,396		8,385			66,813
Special Assessments - Current	2,949	20,822		93,739			117,510
Special Assessments - Delinquent	38,539	3,010					41,549
Interfund Receivable	109,440						109,440
Due from Other Governments	286,822	334,478					621,300
Prepaid Items	19,223	45,975					65,198
Fixed Assets					$3,855,091		3,855,091
Other Debits:							
Amount to be Provided From General Government Resources						$1,800,154	1,800,154
Total Assets and Other Debits	1,595,049	3,489,898	543,045	155,200	3,855,091	1,800,154	11,438,437
Liabilities, Fund Equity and Other Credits:							
Liabilities:							
Accounts Payable	$13,033	$16,456					$29,489
Contracts Payable			237,372				237,372
Retainage Payable			91,752				91,752
Interfund Payable		109,440					109,440
Accrued Wages	8,788	52,010					60,798
Compensated Absences Payable	114	8,186				124,121	132,421
Due to Other Governments	8,693	87,982		5,736		74,125	176,536
Deferred Revenue	737,229	2,135,819					2,873,048
Note Payable						1,600,000	1,600,000
Capital Leases Payable						1,908	1,908
Total Liabilities	767,857	2,409,893	329,124	5,736		1,800,154	5,312,764
Fund Equity and Other Credits:							
Investment in General Fixed Assets					3,855,091		3,855,091
Retained Earnings:							
Unreserved				149,464			149,464
Fund Balance:							
Reserved for Encumbrances	128,863	291,322	117,673				537,858
Unreserved, Undesignated	698,329	788,683	96,248				1,583,260
Total Fund Equity and Other Credits	827,192	1,080,005	213,921	149,464	3,855,091		6,125,673
Total Liabilities, Fund Equity and Other Credits	$1,595,049	$3,489,898	$543,045	$155,200	$3,855,091	$1,800,154	$11,438,437

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, 2003

	Governmental Fund Types			Total
	General	Special Revenue	Capital Projects	(Memorandum Only)
Revenues:				
Property and Other Taxes	$344,484	$1,878,513		$2,222,997
Intergovernmental	746,802	772,435	$129,064	1,648,301
Special Assessments	1,578	21,187		22,765
Charges for Services	39,460	225,352		264,812
Licenses and Permits	10,791	16,798		27,589
Investment Income	18,986	9,514		28,500
Contributions	400			400
Other	10,686	32,830	353	43,869
Total Revenues	1,173,187	2,956,629	129,417	4,259,233
Expenditures:				
Current:				
Security of Persons and Property		2,296,272		2,296,272
Public Health		6,910		6,910
Community Environment	106,591			106,591
Transportation		663,815		663,815
General Government	741,652	20,356		762,008
Capital Outlay	114,413	156,322	1,100,262	1,370,997
Debt Service:				
Principal Retirement	9,061	24,194		33,255
Interest and Fiscal Charges	429	669	18,384	19,482
Total Expenditures	972,146	3,168,538	1,118,646	5,259,330
Excess of Revenues Over (Under) Expenditures	201,041	(211,909)	(989,229)	(1,000,097)
Other Financing Sources (Uses):				
Proceeds from Sale of Notes			1,600,000	1,600,000
Operating Transfers - In		499,001	25,051	524,052
Operating Transfers - Out	(499,001)	(25,051)		(524,052)
Total Other Financing Sources (Uses)	(499,001)	473,950	1,625,051	1,600,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(297,960)	262,041	635,822	599,903
Fund Balances (Deficit) at Beginning of Year - Restated (Note 3)	1,125,152	817,964	(421,901)	1,521,215
Fund Balances at End of Year	$827,192	$1,080,005	$213,921	$2,121,118

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, 2003

	General Fund		
	Revised Budget	**Actual**	**Variance Favorable (Unfavorable)**
Revenues:			
Property and Other Taxes	$442,215	$404,330	($37,885)
Intergovernmental	698,444	731,710	33,266
Special Assessments	1,578	1,578	
Charges for Services	36,917	36,917	
Licenses and Permits	10,045	10,791	746
Investment Income	12,362	13,074	712
Contributions	400	400	
Other	10,424	10,686	262
Total Revenues	1,212,385	1,209,486	(2,899)
Expenditures:			
Current:			
Security of Persons and Property			
Public Health			
Community Environment	111,802	105,670	6,132
Transportation			
General Government	851,784	819,623	32,161
Capital Outlay	190,500	180,077	10,423
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Total Expenditures	1,154,086	1,105,370	48,716
Excess of Revenues Over (Under) Expenditures	58,299	104,116	45,817
Other Financing Sources (Uses):			
Proceeds from Sale of Notes			
Other Financing Uses			
Advances - In	100,000	100,000	
Advances - Out	(109,440)	(109,440)	
Operating Transfers - In			
Operating Transfers - Out	(499,001)	(499,001)	
Total Other Financing Sources (Uses)	(508,441)	(508,441)	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(450,142)	(404,325)	45,817
Fund Balances at Beginning of Year	833,747	833,747	
Prior Year Encumbrances Appropriated	60,679	60,679	
Fund Balances at End of Year	$444,284	$490,101	$45,817

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)
$2,055,926	$1,877,893	($178,033)			
611,794	769,328	157,534	$129,064	$129,064	
21,187	21,187				
216,021	225,352	9,331			
16,610	17,783	1,173			
8,615	9,514	899			
13,510	25,680	12,170	353	353	
2,943,663	2,946,737	3,074	129,417	129,417	
2,442,328	2,351,781	90,547			
13,900	9,136	4,764			
772,792	705,324	67,468			
30,000	20,356	9,644			
205,600	199,355	6,245	1,265,177	1,237,881	$27,296
			1,600,000	1,600,000	
25,107	25,051	56			
3,489,727	3,311,003	178,724	2,865,177	2,837,881	27,296
(546,064)	(364,266)	181,798	(2,735,760)	(2,708,464)	27,296
			2,550,000	2,550,000	
			(79,790)	(79,790)	
109,440	109,440				
			(100,000)	(100,000)	
499,001	499,001				
608,441	608,441		2,370,210	2,370,210	
62,377	244,175	181,798	(365,550)	(338,254)	27,296
716,833	716,833		425,908	425,908	
104,982	104,982		8,590	8,590	
$884,192	$1,065,990	$181,798	$68,948	$96,244	$27,296

CITY OF CLAYTON
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS ENTERPRISE FUND FOR THE YEAR ENDED DECEMBER 31, 2003

	Water
Operating Revenues:	
Charges for Services	$16,204
Special Assessments	93,739
Total Operating Revenues	109,943
Operating Expenses:	
Materials and Supplies	24,495
Net Income	85,448
Retained Earnings at Beginning of Year - Restated (Note 3)	64,016
Retained Earnings at End of Year	$149,464

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, 2003

	Water		
	Revised Budget	**Actual**	**Variance Favorable (Unfavorable)**
Revenues:			
Charges for Services	$18,875	$19,397	$522
Expenses:			
Materials and Supplies	46,629	46,629	
Excess of Revenues Under Expenses	(27,754)	(27,232)	522
Fund Equity at Beginning of Year	52,438	52,438	
Fund Equity at End of Year	$24,684	$25,206	$522

See accompanying notes to the general purpose financial statements.

CITY OF CLAYTON
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Water
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities	
Cash Received from Customers	$19,397
Cash Payments to Suppliers	(18,759)
Net Cash Provided by Operating Activities	638
Cash and Cash Equivalents Beginning of Year	52,438
Cash and Cash Equivalents End of Year	53,076
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$85,448
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets:	
Increase in Due to Other Governments	5,736
Decrease in Accounts Receivable	3,193
Increase in Special Assessments Receivable	(93,739)
Net Cash Provided by Operating Activities	$638

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 1802 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 16 to the general purpose financial statements.

The City participates in one insurance purchasing pool, the Ohio Government Risk Management 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. This organization is presented in Note 17 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. The Enterprise Fund operating statement presents 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 6.) 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, 2003, but which were levied to finance 2004 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 be 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 2003 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. 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 reappropriated.

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 2003, investments were limited to STAR Ohio, FNMA notes, a mutual fund, 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 2003. 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, 2003.

The City Council has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during 2003 amounted to $18,986 which includes $14,978 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. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables."

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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.

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.

H. 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)

I. 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. Notes and capital leases are recognized as liabilities of the General Long-Term Obligations Account Group until due.

The Enterprise Fund has no long-term obligations.

J. 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.

K. 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.

L. 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.

M. 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. RESTATEMENT OF FUND BALANCES/RETAINED EARNINGS

Fund balances in the General Fund and Capital Projects funds were restated due to an error in calculating interfund receivable/payable. Equity in pooled cash and cash equivalents was restated in the Special Revenue funds and Capital Projects funds due to an error in the prior year's report. The effect of these changes on fund balance as previously reported at December 31, 2002, is as follows:

	General	Special Revenue	Capital Projects
Fund Balance (deficit) at December 31, 2002	$1,150,152	$836,320	($465,257)
Restatement:			
Cash and Cash Equivalents	0	(18,356)	18,356
Interfund Receivable/Payable	(25,000)	0	25,000
Restated Fund Balance (Deficit) at December 31, 2002	$1,125,152	$817,964	($421,901)

Retained earnings at December 31, 2002 decreased in the Water Enterprise Fund by $19,047 from $83,063 to $64,016 due to an error in the calculation of special assessments receivable.

These changes had the following effect on the excess of revenues and other financing sources over (under) expenditures and other financing uses as previously reported for the year ended December 31, 2002:

	General	Special Revenue	Capital Projects
Excess as Previously Reported	$160,292	($111,359)	($310,378)
Restatement:			
Cash and Cash Equivalents	0	(18,356)	18,356
Interfund Receivable/Payable	(25,000)	0	25,000
Restated Excess	$135,292	($129,715)	($267,022)

Net income as previously reported for the Water Enterprise Fund decreased by $19,047 from $61,447 to $42,400 for the year ended December 31, 2002.

4. 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).

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

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).

6. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. The amounts are included as revenue on the GAAP basis operating statements.

7. The change in fair value of investments is not included on the budget basis operating statement. This amount is included on the GAAP basis operating statement.

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	($297,960)	$262,041	$635,822
Increases (Decreases) Due To:			
Revenue Accruals	31,667	(9,892)	0
Expenditure Accruals	12,591	65,819	247,776
Outstanding Encumbrances	(141,523)	(196,471)	(446,801)
Principal Payments	0	0	(1,600,000)
Proceeds from Sale of Notes	0	0	950,000
Prepaid Items	(4,292)	(11,813)	0
Unrecorded Cash – 2002	5,272	0	0
Increase in Fair Value of Cash Equivalents – 2002	10,634	0	0
Increase in Fair Value of Cash Equivalents - 2003	(11,274)	0	0
Transfers	0	25,051	(25,051)
Advances	(9,440)	109,440	(100,000)
Budget Basis	($404,325)	$244,175	($338,254)

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Income/Excess Of Revenues Under Expenses
Enterprise Fund

	Water Fund
GAAP Basis	$85,448
Decreases Due To:	
Revenue Accruals	(90,546)
Expense Accruals	5,736
Outstanding Encumbrances	(27,870)
Budget Basis	($27,232)

5. 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;

5. 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) 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, qualified trustee 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, (including Repurchase Agreements) Investments and Reverse Repurchase Agreements".

A. Deposits

At year-end, the carrying amount of the City's deposits was $802,355, and the bank balance was $1,000,764. 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.

5. 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. The open-end mutual fund and STAR Ohio, an investment fund operated by the Ohio State Treasurer, are unclassified since they are not evidenced by securities that exist in physical or book entry form.

	Unclassified	Category 2	Category 3	Carrying and Fair Value
STAR Ohio	$404,780	$ 0	$ 0	$ 404,780
Federal National Mortgage Association (FNMA) Notes	0	401,580	0	401,580
Fifth Third Mutual Fund	32,851	0	0	32,851
Repurchase Agreement	0	0	859,915	859,915
Total	$437,631	$401,580	$859,915	$1,699,126

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.”

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	$2,501,481	$ 0
STAR Ohio	(404,780)	404,780
FNMA Notes	(401,580)	401,580
Fifth Third Mutual Fund	(32,851)	32,851
Repurchase Agreement	(859,915)	859,915
GASB Statement No. 3	$ 802,355	$1,699,126

6. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the City. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. 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 alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002, and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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, 2003, 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 2003 operations. The receivable is offset by deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2003 was $12.58 per $1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 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%

7. RECEIVABLES

Receivables at December 31, 2003, consisted of property and other taxes, increment tax, accounts, special assessments, interfund, 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:	
Liquor Permit Fees	$88
Local Government	184,343
Homestead and Rollback	22,028
Estate Taxes	80,363
Total General Fund	286,822
Special Revenue Funds:	
Police Fund	
Homestead and Rollback	69,482
Court Fines	980
Total Police Fund	70,462
Emergency Medical Services Fund	
EMS Grant	1,700
Homestead and Rollback	12,037
Total Emergency Medical Services Fund	13,737
Fire Fund	
Homestead and Rollback	27,686
Street Fund	
Gasoline Tax	144,632
Motor Vehicle License	61,245
Total Street Fund	205,877
State Highway Fund	
Gasoline Tax	11,728
Motor Vehicle License	4,963
Total State Highway Fund	16,691
Drug Law Enforcement Fund	
Court Fines	25
Total Special Revenue Funds	334,478
Total All Funds	$621,300

7. RECEIVABLES (Continued)

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 if not 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, 2003. The City is not able to record a receivable for all future payments because the payments are based upon projected tax collections were it not for the exemption.

8. FIXED ASSETS

Changes in general fixed assets during the year ended December 31, 2003, were as follows:

Asset Category	Adjusted Balance at 12/31/02	Additions	Deletions	Balance at 12/31/03
Land	$ 227,357	$ 0	$ 0	$ 227,357
Building	726,380	0	0	726,380
Improvements Other Than Buildings	10,418	0	0	10,418
Furniture and Fixtures	74,199	0	0	74,199
Vehicles	2,219,168	0	0	2,219,168
Equipment	564,045	61,624	28,100	597,569
Total Fixed Assets	$3,821,567	$61,624	$28,100	$3,855,091

9. DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

9. DEFINED BENEFIT PENSION PLAN (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions to OPERS for the years ended December 31, 2003, 2003, and 2001 were $118,828, $125,265, and $142,315, respectively; 71.4 percent has been contributed for 2003 and 100 percent for 2002 and 2001.

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.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were $60,530, $77,993, and $50,472 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 75.9 percent has been contributed for 2003 with the remainder being reported as a liability.

10. POST-EMPLOYMENT 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 with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

10. POST-EMPLOYMENT BENEFITS (Continued)

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, 2002, 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.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund post-employment benefits were $59,865. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were $10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $18.7 billion and $8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader 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 service, disability or survivor 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 Post-employment 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 funds of OP&F 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 post-employment health care program during 2003. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

10. POST-EMPLOYMENT BENEFITS (Continued)

The City's actual contributions for 2003 that were used to fund post-employment benefits were $15,254 for police and $17,838 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002 (the latest information available) was $141,028,006, which was net of member contributions of $12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

11. 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.

12. CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the City has entered into capitalized leases for the purchase of equipment. Each lease meets 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.

12. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

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 2003 totaled $33,255 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, 2003:

Year Ending December 31,	GLTDAG
2004	$1,965
Less: Amount Representing Interest	(57)
Present Value of Net Minimum Lease Payments	$1,908

13. LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2003 were as follows:

Types/Issues	Balance 12/31/02	Issued	Retired	Balance 12/31/03
Notes Payable:				
2003 State Route 48 Improvement Notes – 1.90%	$0	$1,600,000	$0	$1,600,000
Other Long Term Obligations:				
Compensated Absences	139,541	0	15,420	124,121
Due to Other Governments	76,137	74,125	76,137	74,125
Capital Leases	35,163	0	33,255	1,908
Total General Long-Term Obligations	$250,841	$1,674,125	$124,812	$1,800,154

The 2003 State Route 48 Improvement Notes were issued on August 8, 2003, in the amount of $1,600,000 for the purpose of improving State Route 48. The notes were issued at a 1.9 percent interest rate and will reach maturity on April 14, 2004. The notes will be paid from the State Route 48 Improvement Capital Projects Fund.

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

The City's overall legal debt margin was $24,009,390 at December 31, 2003, and the unvoted debt margin was $11,814,442.

14. NOTE OBLIGATIONS

A summary of the short-term note transactions for the year ended December 31, 2003, follows:

Types/Issues	Balance 12/31/02	Issued	Retired	Balance 12/31/03
Capital Projects Funds:				
Various Purpose Infrastructure Improvement Note – 2.60%	$650,000	$0	$650,000	$0
State Route 48 Improvement Note – 3.17%	0	950,000	950,000	0
Total Capital Projects Funds	$650,000	$950,000	$1,600,000	$0

15. 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 2003, the City participated in the Ohio Government Risk Management Plan (the “Plan”), an insurance purchasing pool. (See Note 17) 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)	$5,000,000/$7,000,000	$0
Public Official and Police Professional (per Occurrence/aggregate)	5,000,000/7,000,000	2,500
Municipal Automobile Liability (per Occurrence)	5,000,000	0
Building and Contents	3,062,408	1,000
Inland Marine	781,596	1,000
Electronic Data Processing	71,550	500

Settled claims have not exceeded this coverage in any of the past three years. There was a $2,000,000 increase from the prior year in the municipal general liability, public official and police professional, and the municipal automobile liabilities coverages. Building and contents, inland marine, and electronic data processing increased from the prior year by $872,694, $231,590, and $17,000, respectively.

16. 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.

16. 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 2003. 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 2003. Financial information may be obtained by writing to Linda Gum, Administrative Assistant, 451 West Third Street, Dayton, Ohio 45422.

17. INSURANCE PURCHASING POOLS

The Government belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is 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 coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures with A- VII or better rated carriers, except for a 5% portion the Plan retains. With policies effective September 1, 2003 and after, The Plan pays the lesser of 5% or $25,000 for casualty losses up to the coverage limit and the lesser of 5% or $50,000 for property losses up to the coverage limit. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

17. INSURANCE PURCHASING POOLS (Continued)

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003 and 2002 (the latest information available):

	2003	2002
Assets	$5,402,167	$5,584,592
Liabilities	(1,871,123)	(2,441,793)
Members' Equity	$3,531,044	$3,142,799

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

18. INTERFUND TRANSACTIONS

The General Fund has an "Interfund Receivable" in the amount of $109,440 and the Fire Special Revenue Fund had an "Interfund Payable" in the amount of $109,440 at December 31, 2003.

19. CONTINGENT LIABILITIES

A. Federal And State Grants

For the period January 1, 2003, to December 31, 2003, 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.

B. Litigation

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 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 receive electronic data from the City of Dayton on individual usage that they can use to bill the individual users.

20. CONTRACTUAL COMMITMENTS (Continued)

As of December 31, 2003, the City had contractual purchase commitments as follows:

Company	Project	Contract Amount	Amount Expended	Balance at 12/31/03
City of Englewood and Lockwood Jones	Hoke/National Road	$150,300	$105,874	$44,426
L.J. Deweese Co. Inc, Stone Environmental, and Edwards & Kelsey	State Route 48	1,241,847	1,103,318	138,529

21. SUBSEQUENT EVENTS

On April 8, 2004, the City refinanced the State Route 48 Improvement Notes in the amount of $1,600,000. The notes mature on April 8, 2005, and bear an interest rate of 1.74 percent.

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

To the Members of City Council:

We have audited the financial statements of City of Clayton, Montgomery County, (the City), as of and for the year ended December 31, 2003, and have issued our report thereon dated August 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated August 17, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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 a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the City's management in a separate letter dated August 17, 2004.

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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

August 17, 2004

CITY OF CLAYTON
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-001	The Charter for Clayton, Ohio, Article 8.02 (E) and (F). Failure to certify funds.	No	Partially corrected, will be reissued as a management letter comment.
2002-002	Ohio Rev. Code Section 5705.41(B), expenditures in excess of appropriations.	Yes	Corrected

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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 16, 2004