CITY OF CLAYTON
MONTGOMERY COUNTY

REGULAR AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2001

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

CITY OF CLAYTON
MONTGOMERY COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Clayton
Montgomery County
6990 Taywood Road
Clayton, Ohio 45322

To Members of 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, 2001, 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, 2001, 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 September 10, 2002 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.

Jim Petro
Auditor of State

September 10, 2002

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CITY OF CLAYTON
MONTGOMERY COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF DECEMBER 31, 2001

	Governmental Fund Types		
	General	**Special Revenue**	**Capital Projects**
Assets and Other Debits:			
Assets:			
Equity in Pooled Cash			
and Cash Equivalents	$807,806	$926,546	$549,576
Receivables:			
Property and Other Taxes	357,782	1,627,503	
Increment Tax		66,459	
Accounts	14,751	203,502	
Special Assessments - Current	1,103	19,560	
Special Assessments - Delinquent	37,127	1,979	
Due from Other Governments	359,872	318,860	65,905
Prepaid Items	17,298	46,669	
Fixed Assets			
Other Debits:			
Amount to be Provided From			
General Government Resources			
Total Assets and Other Debits	1,595,739	3,211,078	615,481
Liabilities, Fund Equity and Other Credits:			
Liabilities:			
Accounts Payable	9,128	10,515	1,065
Contracts Payable			51,631
Retainage Payable			30,079
Accrued Wages	3,632	41,097	
Accrued Interest Payable			8,762
Compensated Absences Payable	950	11,834	
Due to Other Governments	2,693	37,028	
Deferred Revenue	589,476	2,162,925	
Note Payable			650,000
Capital Leases Payable			
Total Liabilities	605,879	2,263,399	741,537
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings:			
Unreserved			
Fund Balance:			
Reserved for Encumbrances	23,351	91,154	82,912
Unreserved, Undesignated (Deficit)	966,509	856,525	(208,968)
Total Fund Equity (Deficit)			
and Other Credits	989,860	947,679	(126,056)
Total Liabilities, Fund Equity and			
Other Credits	$1,595,739	$3,211,078	$615,481

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Account Groups		
Enterprise	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
$21,616			$2,305,544
			1,985,285
			66,459
			218,253
			20,663
			39,106
			744,637
			63,967
	3,624,005		3,624,005
		331,418	331,418
21,616	3,624,005	331,418	9,399,337
			20,708
			51,631
			30,079
			44,729
			8,762
		144,829	157,613
		67,933	107,654
			2,752,401
			650,000
		118,656	118,656
		331,418	3,942,233
	3,624,005		3,624,005
21,616			21,616
			197,417
			1,614,066
21,616	3,624,005		5,457,104
$21,616	$3,624,005	$331,418	$9,399,337

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, 2001

	Governmental Fund Types			Total
	General	Special Revenue	Capital Projects	(Memorandum Only)
Revenues:				
Property and Other Taxes	$361,261	$1,746,332		$2,107,593
Increment Tax		39,143		39,143
Intergovernmental	819,380	584,639	659,712	2,063,731
Special Assessments	13,663	13,084		26,747
Charges for Services	22,926	104,217		127,143
Licenses and Permits	9,917	12,312		22,229
Investment Income	65,958	31,882		97,840
Contributions	21,892	44,478		66,370
Other	29,918	35,848		65,766
Total Revenues	1,344,915	2,611,935	659,712	4,616,562
Expenditures:				
Current:				
Security of Persons and Property		2,033,113		2,033,113
Public Health		7,393		7,393
Community Environment	87,233			87,233
Transportation		538,912		538,912
General Government	714,549	21,897	125,299	861,745
Capital Outlay	5,512		655,573	661,085
Debt Service:				
Principal Retirement	13,538	64,068		77,606
Interest and Fiscal Charges	9,576	7,687	8,762	26,025
Total Expenditures	830,408	2,673,070	789,634	4,293,112
Excess of Revenues Over (Under) Expenditures	514,507	(61,135)	(129,922)	323,450
Other Financing Sources (Uses):				
Proceeds from Sale of Fixed Assets	153	5,828		5,981
Inception of Capital Lease	5,512			5,512
Operating Transfers - In		200,000		200,000
Operating Transfers - Out	(200,000)			(200,000)
Total Other Financing Sources (Uses)	(194,335)	205,828	0	11,493
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	320,172	144,693	(129,922)	334,943
Fund Balances at Beginning of Year	669,688	802,986	3,866	1,476,540
Fund Balances (Deficit) at End of Year	$989,860	$947,679	($126,056)	$1,811,483

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, 2001

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property and Other Taxes	$345,933	$357,034	$11,101
Increment Tax			
Intergovernmental	694,121	745,794	51,673
Special Assessments		13,663	13,663
Charges for Services		22,926	22,926
Licenses and Permits	48,000	9,917	(38,083)
Investment Income	89,040	57,115	(31,925)
Contributions		21,892	21,892
Other	29,606	30,620	1,014
Total Revenues	1,206,700	1,258,961	52,261
Expenditures:			
Current:			
Security of Persons and Property			
Public Health			
Community Environment	90,747	87,866	2,881
Transportation			
General Government	1,027,771	762,553	265,218
Capital Outlay			
Total Expenditures	1,118,518	850,419	268,099
Excess of Revenues Over (Under) Expenditures	88,182	408,542	320,360
Other Financing Sources (Uses):			
Proceeds from Sale of Notes			
Proceeds from Sale of Fixed Assets		153	153
Advances - In		200,000	200,000
Advances - Out	(150,000)	(150,000)	
Operating Transfers - In			
Operating Transfers - Out		(200,000)	(200,000)
Total Other Financing Sources (Uses)	(150,000)	(149,847)	153
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(61,818)	258,695	320,513
Fund Balances at Beginning of Year	504,347	504,347	
Prior Year Encumbrances Appropriated	19,919	19,919	
Fund Balances (Deficit) at End of Year	$462,448	$782,961	$320,513

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)
$2,046,644	$1,746,475	($300,169)			
39,143	39,143				
555,066	575,699	20,633	38,935	622,631	583,696
13,084	13,084				
1,580	77,926	76,346			
372	11,794	11,422			
	8,839	8,839			
	44,478	44,478			
	38,622	38,622			
2,655,889	2,556,060	(99,829)	38,935	622,631	583,696
2,279,750	2,143,756	135,994			
15,310	7,390	7,920			
662,708	627,357	35,351			
65,174	8,171	57,003	906,718	208,211	698,507
			150,000	573,862	(423,862)
3,022,942	2,786,674	236,268	1,056,718	782,073	274,645
(367,053)	(230,614)	136,439	(1,017,783)	(159,442)	858,341
			650,000	650,000	
	5,828	5,828			
			150,000	150,000	
			(360,000)	(200,000)	160,000
	200,000	200,000			
	205,828	205,828	440,000	600,000	160,000
(367,053)	(24,786)	342,267	(577,783)	440,558	1,018,341
812,130	812,130		22,527	22,527	
7,159	7,159		2,514	2,514	
$452,236	$794,503	$342,267	($552,742)	$465,599	$1,018,341

CITY OF CLAYTON
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

	Enterprise Fund
Operating Revenues:	
Tap-In Fees	$21,616
Total Operating Expenses	0
Net Income	21,616
Retained Earnings at Beginning of Year	0
Retained Earnings at End of Year	$21,616

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, 2001

	Enterprise
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities	
Cash Received from Customers	$21,616
Net Increase in Cash and Cash Equivalents	21,616
Cash and Cash Equivalents Beginning of Year	0
Cash and Cash Equivalents End of Year	$21,616
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$21,616

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, 2001

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Tap-in Fees	$21,616	$21,616	
Total Expenses	0	0	
Excess of Revenues Over Expenses	21,616	21,616	
Fund Equity at Beginning of Year	0	0	
Fund Equity at End of Year	$21,616	$21,616	

See Accompanying Notes to the General Purpose Financial Statements.

1. REPORTING ENTITY AND BASIS OF PRESENTATION

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 and the Mayor and the at-large members 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. The City provides various services including police, fire, emergency medical, planning and zoning, street construction, maintenance and repair, administrative services, and water. 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 may also include organizations for which the City authorizes the issuance of debt or the levying of their taxes or determines the budget. 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 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.

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the 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 established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specific purposes.

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. Proprietary Fund Type

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

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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 obligations 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 all 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 unmatured long-term obligations of the City, except those accounted for in the enterprise fund.

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 issued on or before November 30, 1989, to the enterprise fund provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

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

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. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The City has no contributed capital. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

The modified accrual basis of accounting is followed for the governmental 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 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 revenues are deemed both measurable and available: state-levied locally shared taxes (including gasoline tax), grants, licenses and permits, 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, 2001, but which were levied to finance 2002 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.

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

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

B. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. All budgetary modifications at this level may only be made by resolution of the City Council. The Finance Director has been authorized to allocate appropriations at the program and object level within each fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advances - in and advances - out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

1. Tax Budget

A tax budget of estimated revenues and expenditures for all 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.

2. Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation ordinance.

On or about January 1, the certificate of estimated resources is amended to include unencumbered fund cash balances at December 31 of the preceding year. The certificate may be further amended 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 estimates to be reasonable. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources requested for 2001.

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or around January 1 of each year for the period January 1 to March 31. The annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. During the year, several supplemental appropriation measures were passed. Total appropriations increased by $1,704,682 from $4,003,496 to $5,708,178. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current year, including all amendments and modifications. The financial statements are presented at more detail than the legal level of control.

4. 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 to 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 reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for the enterprise fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. 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.

C. 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. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During 2001, investments were limited to STAR Ohio, Anthem stock, 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 Assets Reserve of Ohio (STAR Ohio) during 2001. 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, 2001.

The City Council has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during 2001 amounted to $65,958 which includes $40,152 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents.

D. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2001, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fixed Assets

General fixed assets 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. The enterprise fund has no fixed assets. All purchased fixed assets are valued at cost when historical records are available and estimated historical cost where no historical records exist. For certain assets, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are valued at their estimated fair market value on the date received. The City maintains a capitalization threshold of one thousand dollars.

Improvements which extend the useful life or increase the capacity or operating efficiency are capitalized at cost. 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. Interest incurred during the construction of several fixed assets is also not capitalized.

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 as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated.

F. 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 expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. There is no compensated absences payable in the enterprise fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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 expendable available financial resources. Payments made more than thirty 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.

H. Reservations of Fund Balance

The City reserves fund balances for amounts that are legally segregated for a specific purpose or which are not available for current appropriations or expenditures because of their non-monetary nature or lack of liquidity. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Fund balance has been reserved for encumbrances.

I. 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 and nonroutine permanent transfers of equity between funds are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. 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.

K. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements 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. CHANGE IN ACCOUNTING PRINCIPLES

For 2001, the City has implemented GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions” and GASB Statement No. 36, “Recipient Reporting for Certain Shared Nonexchange Revenues”. These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis the criteria established for accrual basis revenue recognition must be met and the revenues must be available. The implementation of these statements had no effect on fund balance/retained earnings as was previously reported at December 31, 2000.

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2001, State Route 48 improvement fund had deficit fund balance of $215,656. The Gasoline Tax fund had a deficit of $492. The general fund transfers monies to cover deficit balances, however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The street lights and tax increment special revenue funds had an excess of appropriations over estimated resources and available balances for the year ended December 31, 2001, of $138 and $26,031 respectively. The Westbrook & State Route 48 intersection improvement capital project funds had an excess of appropriations over estimated resources and available resources for the same year of $751,976.

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 (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

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	$320,172	$144,693	($129,922)
Increases (decreases) Due To:			
Revenue Accruals	(82,623)	(32,832)	(37,081)
Expenditure Accruals	(9,533)	(19,239)	91,538
Outstanding Encumbrances	(24,056)	(109,000)	(83,977)
Change in Fair Value of Investments	(8,843)	0	0
Proceeds from Sale of Notes	0	0	650,000
Prepaid Items	5,524	14,635	0
Unrecorded Cash	8,054	(23,043)	0
Advances	50,000	0	(50,000)
Budget Basis	$258,695	($24,786)	$440,558

The enterprise fund had no changes on the GAAP basis to budget basis.

6. DEPOSITS AND INVESTMENTS

The investment and deposit of City monies are governed by the provisions of the Ohio Revised Code. 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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

6. DEPOSITS AND INVESTMENTS (Continued)

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (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;

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. Interim deposits in duly authorized depositories of the City, provided those deposits are properly insured or collateralized as required by law;

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.

6. DEPOSITS AND INVESTMENTS (Continued)

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 Deposits was $88,557 and the bank balance was $353,509. Of the bank balance, $100,000 was covered by federal depository insurance and $253,509 was uninsured and not collateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. The open-end mutual fund and STAR Ohio, an investment fund operated by the Ohio State Treasurer, are unclassified since it is not evidenced by securities that exist in physical or book entry form.

	Category 1	Category 2	Category 3	Carrying and Fair Value
STAR Ohio	$0	$0	$0	$913,521
Anthem Stock	113,256	0	0	113,256
FNMA Note	0	415,504	0	415,504
Fifth Third Government Money Market Fund	0	652,596	0	652,596
Repurchase Agreement	0	0	122,110	122,110
Total	$113,256	$1,068,100	$122,110	$2,216,987

6. DEPOSITS AND INVESTMENTS (Continued)

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." The reconciliation between classifications of cash and cash equivalents and investments on the general purpose financial statements and the classifications per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	$2,305,544	$0
STAR Ohio	(913,521)	913,521
Anthem Stock	(113,256)	113,256
FNMA Note	(415,504)	415,504
Fifth Third Government Money Market Fund	(652,596)	652,596
Repurchase Agreement	(122,110)	122,110
GASB Statement 3	$88,557	$2,216,987

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 2001 for real and public utility property taxes represent collections of the 2000 taxes. Property tax payments received during 2001 for tangible personal property (other than public utility) is for 2001 taxes.

2001 real property taxes are levied after October 1, 2001, on the assessed values as of January 1, 2001, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2001 real property taxes are collected in and intended to finance 2002.

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. 2001 public utility property taxes become a lien December 31, 2000, are levied after October 1, 2001, and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after October 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are 25 percent of true value.

The assessed value for the taxes collected in 2001 was $219,644,425 of which real property represented 94.94 percent ($208,522,520) of the total, public utility property represented 4.21 percent ($9,256,180) of the total, and tangible personal property represented 0.85 percent ($1,865,725) of the total. The full tax rate for all City operations for taxes collected in 2001, was $12.58 per $1,000 of assessed valuation.

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.

7. PROPERTY TAXES (Continued)

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 collected. Property taxes receivable represents real and tangible personal property taxes, public utility and outstanding delinquencies which are measurable as of December 31, 2001, 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 2001 operations. The receivable is offset by deferred revenue.

8. RECEIVABLES

Receivables at December 31, 2001, consisted primarily of property and other taxes, increment tax, accounts, special assessments, and due from other governments arising from grants, entitlements and shared revenues. All receivables are considered fully collectible.

A. Due from Other Governments

A summary of intergovernmental receivables follows:

General Fund:	
Economic Development/Government Equity	$13,130
Local Government	188,183
Workers' Compensation Refund	462
Personal Property Exemption	1,643
Homestead and Rollback	20,810
Estate Taxes	135,644
Total General Fund	359,872
Special Revenue Funds:	
Fire Fund	
Personal Property Exemption	2,329
Homestead and Rollback	27,606
Total Fire Fund	29,935
Emergency Medical Services Fund	
EMS Grant	2,741
Homestead and Rollback	12,003
Workers' Compensation Refund	1,013
Total Emergency Medical Services Fund	15,757
Police Fund	
Personal Property Exemption	7,885
Homestead and Rollback	69,294
Workers' Compensation Refund	1,784
Fines	610
Total Police Fund	79,573

8. RECEIVABLES (Continued)

Street Fund	
Gasoline Tax	117,461
Motor Vehicle License	60,657
Workers' Compensation Refund	2,394
Total Street Fund	$180,512
State Highway Fund	
Gasoline Tax	$9,523
Motor Vehicle License	3,525
Total State Highway Fund	13,048
Drug Law Enforcement Fund	
Fines	35
Total Special Revenue Funds	318,860
Capital Projects Fund:	
State Route 48 Capital Improvement Economic Development/Government Equity Grant	28,824
Westbrook & SR 48 Intersection Improvement Fund	37,081
Total Capital Projects Funds	65,905
Total All Funds	$744,637

B. 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, 2001. 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, 2001, were as follows:

Asset Category	Balance 12/31/00	Additions	Deletions	Balance 12/31/01
Land	$161,533	$0	$0	$161,533
Building	716,380	127,036	0	843,416
Improvements Other Than Buildings	10,418	0	0	10,418
Furniture and Fixtures	72,560	0	0	72,560
Vehicles	1,879,314	41,272	29,432	1,891,154
Equipment	608,132	36,792	0	644,924
Total Fixed Assets	$3,448,337	$205,100	$29,432	$3,624,005

10. DEFINED BENEFIT PENSION PLAN

A. Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS 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. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members, other than those engaged in law enforcement, are required to contribute 8.5 percent of their annual covered salary to fund pension obligations; law enforcement employees contribute 9 percent. The 2001 employer pension contribution rate for employees other than those engaged in law enforcement, for the City was 9.25 percent of covered payroll, which increased from 6.54 percent in 2000. The city contribution for law enforcement employees for 2001 was 12.4 percent, which increased from 11.4 percent in 2000. For 2000, PERS instituted a temporary employer rate rollback for state and local governments. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were $142,315, $95,263, and $92,202, respectively. The full amount has been contributed for 2000 and 1999. The amount contributed for 2001 was 77 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 public employee retirement system administered by the OP&F's Board of Trustees. 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 by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

10. DEFINED BENEFIT PENSION PLAN (Continued)

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 12 percent for police and 16.5 percent for firefighters. For 2000, the City contributions were 12.25 percent for police and 16.75 percent for firefighters. The City’s contributions to the OP&F for police and firefighters were $13,113 and $37,359 for the year ended December 31, 2001, $8,560 and $40,487 for the year ended December 31, 2000, and $4,509 and $35,481 for the year ended December 31, 1999. The full amount has been contributed for 2000 and 1999. 73 percent for both have been contributed for 2001 with the remainder being reported as a liability in the general long-term obligations account group.

11. POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System (Pers)

The Public Employees Retirement System of Ohio (PERS) 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 PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2001. The law enforcement employer contribution rate was 16.7 percent of covered payroll; 4.3 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.3 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 PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 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.

The number of active contributing participants was 411,076. The City's actual contributions for 2001 which were used to fund postemployment benefits were $22,493. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were $11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were $14,364.6 million and $2,628.7 million, respectively.

11. POSTEMPLOYMENT BENEFITS (Continued)

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.

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 7.5 percent of covered payroll was applied to the postemployment health care program during 2001. For 2000 the percent used to fund healthcare was 7.25 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 2001 that were used to fund postemployment benefits were $8,196 for police and $16,981 for fire. The OP&F's total health care expense for the year ended December 31, 2000, (the latest information available) was $106,160,054, which was net of member contributions of $5,657,431. The number of OP&F participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 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 plans, 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 varying portions 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 employees' regular rate. Employees with time remaining upon termination of their employment will be paid for any unused compensatory time.

12. OTHER EMPLOYEE BENEFITS (Continued)

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

The City has entered into capitalized leases for 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. New capital leases are reflected in the accounts "capital outlay" and "inception of capital lease" in the fund making the lease payment. The lease payments are reflected as debt service expenditures in the combined financial statements in the general and special revenue 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 2001 totaled $77,606 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, 2001:

Year Ending December 31,	GLTDAG
2002	$88,780
2003	34,353
2004	1,965
Total	125,098
Less: Amount Representing Interest	(6,442)
Present Value of Net Minimum Lease Payments	$118,656

14. 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 2001, the City participated in the Ohio Government Risk Management Plan (the "Plan"), an insurance purchasing pool. (See Note 18)

14. RISK MANAGEMENT (Continued)

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	$2,500
Public Official and Police Professional (per occurrence/aggregate)	3,000,000/5,000,000	0
Municipal Automobile Liability (per occurrence)	3,000,000	0
Building and Contents	2,125,939	500
Inland Marine	544,394	250
Electronic Data Processing	54,550	250

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 2001, 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.

15. LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2001 were as follows:

Types / Issues	Balance 12/31/00	Issued	Retired	Balance 12/31/01
Compensated Absences	$156,588	$0	$11,759	$144,829
Due to Other Governments	61,887	67,933	61,887	67,933
Capital Leases	190,750	5,512	77,606	118,656
Total General Long-Term Obligations	$409,225	$73,445	$151,252	$331,418

Compensated absences and the due to other governments will be paid from the fund 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 $22,515,187 at December 31, 2001, and the unvoted debt margin was $11,484,145.

16. NOTE OBLIGATION

During 2001, the City issued a 6.00 percent revenue anticipation note 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 in August 2002.

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.

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 2001. 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 2001. Financial information may be obtained by writing to Linda Gum, Administrative Assistant, 451 West Third Street, Dayton, Ohio 45422.

18. INSURANCE PURCHASING POOLS

The Ohio Government Risk Management Plan ("the Plan") was organized in June of 1988 as authorized by Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated non-profit association of its members and an instrumentality for each member for the sole purpose of enabling members of the Plan to provide for a formalized, jointly administered program to maintain adequate protection, risk management programs and other administrative services. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity for the public purpose of enabling its members to obtain insurance through a jointly administered fund. Members of the Plan are relatively small political subdivisions such as townships, villages, small cities, and others in the State of Ohio which are eligible to participate under applicable statute, ruling or law subject to certain underwriting standards as deemed appropriate by the Plan and its administrator.

The Plan was established to provide property, liability, errors, and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine, and other coverage's to its members sold through ten appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. The Plan has agreed to pay judgments, settlements, and other expenses resulting from claims arising related to the coverage provided in excess of the member's deductible.

The Plan has chosen to adopt the forms and endorsements of conventional insurance coverage and to reinsure these coverage's 100 percent, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have excess reinsurance coverage's above the retention amount. Therefore, the individual members are only responsible for their deductible amounts.

For 2001, the City participated in the Ohio Municipal League of Ohio Workers' Compensation Group Rating Plan (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

A. Federal and State Grants

For the period January 1, 2001, to December 31, 2001, 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 has entered into a twenty year agreement 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, 2001, the City had contractual purchase commitments as follows:

Company	Project	Contract Amount	Amount Expended	Balance at 12/31/01
MPH Industries	Radar Units	$8,000	$0	$8,000
Mid Bus, Inc.	2002 Medic	43,000	0	43,000
Montgomery County Engineer	Road Striping	4,249	0	4,249
Montgomery County Engineer	Road Striping	7,046	0	7,046
Cargill, Inc.	Road De-Icing	11,676	2,556	9,120
Montgomery County Engineer	Road Striping	12,912	0	12,912

21. DEVELOPMENT STAGE ENTERPRISE

The Water Enterprise Fund is a development stage enterprise for 2001 according to Financial Accounting Standard Board Statement No. 7, "Accounting and Reporting by Development Stage Enterprises." The fund will have charges for services revenue in 2002. 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 will begin 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 2001 were for taps that were completed in 2001. The tap-in fees will eventually be remitted to the City of Dayton once the project is completed.

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

City of Clayton
Montgomery County
6990 Taywood Road
Clayton, Ohio 45322

To Members of Council:

We have audited the financial statements of the City of Clayton as of and for the year ended December 31, 2001, and have issued our report thereon dated September 10, 2002. 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 2001-20357-001and 2001-20357-002.

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 September 10, 2002.

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.

Jim Petro
Auditor of State

September 10, 2002

CITY OF CLAYTON
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001

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

FINDING NUMBER 2001-20357-001

Ohio Rev. Code Section 5705.39 states the total appropriation from each fund should not exceed the total estimated revenue, and no appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The following funds had appropriations in excess of the Amended Certificate of Estimated Resources:

FY 2001 (as of 12/31/01)		**Total Est. Res.**	
Funds:	**Appropriations**		**Variance**
Tax Increment (702)	65,174	39,143	(26,031)
Westbrook Rd. St. Rt. 48 Intersection Improvement (830)	751,976	-	(751,976)
Street Lights	15,895	16,033	(138)
FY 2001 (as of 6/30/01)		**Total**	
Funds:	**Appropriations**	**Est. Res.**	**Variance**
Tax Increment (702)	65,174	-	(65,174)
Westbrook Rd. St. Rt. 48 Intersection Improvement (830)	751,976	-	(751,976)
Street (401)	524,645	357,179	(167,466)

The year end negative variances resulted from the 2001 Certificates of Estimate Resources not being amended to reflect the increases in actual receipts. To ensure compliance with Ohio Rev. Code Section 5705.39 and improve budgetary controls over estimated resources, appropriations, and expenditures, the Certificate of Estimated Resources should be amended on a timely basis to reflect changes in actual or expected revenue and the corresponding appropriations should be amended accordingly.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)**

FINDING NUMBER 2001-20357-002

The Charter for Clayton, Ohio, Article 8.02 Sections (E) and (F) state 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.

The 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 to 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, 18.33% of disbursement transactions tested was not certified prior to the obligation. The above exception was not utilized for these transactions. 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 verifying amounts are certified before obligations are incurred.

CITY OF CLAYTON
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDING
DECEMBER 31, 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2000-20357-001	Ohio Rev. Code Section 5705.39, Appropriations exceeding est. resources	No	Repeated as 2001-20357-001
2000-20357-002	The Charter for Clayton, Ohio, Article 8.02 sections (E) and (F), Failure to certify funds.	No	Repeated as 2001-20357-002

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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
OCTOBER 17, 2002