



**Auditor of State
Betty Montgomery**

**CITY OF CLYDE
SANDUSKY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Clyde
Sandusky County
222 Main Street
Clyde, Ohio 43410-1655

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clyde, Sandusky County, Ohio, (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 opinions.

We were unable to obtain sufficient evidential matter supporting amounts reported as infrastructure capital assets, accumulated depreciation, depreciation expense, and related net asset restrictions in the business-type activities, Water Fund, Sewer Fund, and Electric Fund.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine amounts reported as infrastructure capital assets, accumulated depreciation, depreciation expense, and related net asset restrictions in the business-type activities, Water Fund, Sewer Fund, and the Electric Fund, the financial statements referred

to above present fairly, in all material respects, the respective financial position of the business-type activities, the Water Fund, Sewer Fund, and the Electric Fund of the City of Clyde, Sandusky County, Ohio, as of December 31, 2003, and the respective changes in position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government type activities, General and Permanent Improvement funds, and the aggregate remaining fund information of the City of Clyde, Sandusky County, Ohio, as of December 31, 2003, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

As discussed in Note 3, the City changed its capital assets threshold policy during 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information.



Betty Montgomery
Auditor of State

November 9, 2004

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

The discussion and analysis of the City of Clyde's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- The total net assets of the City increased \$586,298. Net assets of governmental activities decreased \$1,161 and net assets of business-type activities increased \$587,459 or 1.42 percent over 2002.
- General revenues accounted for \$4,827,858 of total governmental activities revenue. Program specific revenues accounted for \$962,612 or 16.62 percent of total governmental activities revenue.
- The City had \$4,688,088 in expenses related to governmental activities; \$962,612 of these expenses was offset by program specific charges for services, grants, or contributions. The remaining expenses of the governmental activities of \$3,725,476 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$4,827,858.
- The general fund had revenues and other financing sources of \$3,511,697 in 2003. This represents a decrease of \$1,001,604 from 2002 revenues. The expenditures and other financing uses of the general fund, which totaled \$4,069,318 in 2003, decreased \$702,314 from 2002. The net decrease in fund balance for the general fund was \$557,621 or 26.44 percent.
- The permanent improvement fund had revenues and other financing sources of \$2,308,760 in 2003, which is a decrease of \$1,835,720 from 2002 revenues. The expenditures and other financing uses in the permanent improvement fund totaled \$3,465,863 in 2003, which increased \$213,904 from 2002. The net decrease in fund balance was \$1,157,103, resulting in an ending fund deficit of \$282,855
- Net assets for the business-type activities, which are made up of the Water, Sewer, and Electric enterprise funds, increased in 2003 by \$587,459. This increase in net assets was due primarily to transfers of capital assets from the permanent improvement fund coupled with adequate charges for services revenue to cover operating expenses.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

- In the general fund, the actual revenues came in \$21,105 less than they were in the final budget and actual expenditures were \$364,434 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues increased \$31,206 from the original to the final budget due primarily to an increase in projected tax revenue. Budgeted expenditures increased \$129,107 from the original to the final budget due primarily to an increase in the cost of general government expenditures.

The Basic Financial Statements

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental Activities - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the services provided. The City's water, sewer, and electric operations are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 24.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the

**CITY OF CLYDE
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the General Fund and Permanent Improvement Capital Projects Fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 24-28 of this report.

Proprietary Funds

The City maintains three different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and electric management functions. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 29-33 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds are agency and private-purpose trust. The basic fiduciary fund financial statements can be found on page 34-35 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 37-79 of this report.

**CITY OF CLYDE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)

Government-Wide Financial Analysis

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with the prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

The table below provides a summary of the City's net assets for 2003:

Net Assets			
	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 3,256,463	\$ 12,867,223	\$ 16,123,686
Capital assets	5,333,956	45,930,579	51,264,535
<i>Total assets</i>	8,590,419	58,797,802	67,388,221
Liabilities			
Long-term liabilities outstanding	4,655,456	16,496,892	21,152,348
Other liabilities	1,002,416	486,440	1,488,856
<i>Total liabilities</i>	5,657,872	16,983,332	22,641,204
Net Assets			
Invested in capital assets, net of related debt	872,702	29,575,770	30,448,472
Restricted	433,998	1,706,768	2,140,766
Unrestricted	1,625,847	10,531,932	12,157,779
<i>Total net assets</i>	\$ 2,932,547	\$ 41,814,470	\$ 44,747,017

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$44,747,017. At year-end, net assets were \$2,932,547 and \$41,814,470 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 75.95 percent of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2003, were \$872,702 and \$29,575,770 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available

**CITY OF CLYDE
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2003, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$2,140,766, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,625,847 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets			
	Governmental Activities	Business-type Activities	Total
Revenues			
<u>Program revenues:</u>			
Charges for services	\$ 397,279	\$ 11,114,315	\$ 11,511,594
Operating grants and contributions	270,576	840	271,416
Capital grants and contributions	294,757	-	294,757
<i>Total program revenues</i>	962,612	11,115,155	12,077,767
<u>General revenues:</u>			
Property taxes	635,678	-	635,678
Income taxes	3,280,817	-	3,280,817
Special assessments	178,716	-	178,716
Unrestricted grants and entitlements	334,603	-	334,603

(Continued)

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

Change in Net Assets (Continued)

	Governmental Activities	Business-type Activities	Total
Investment earnings	229,598	7,596	237,194
Gain on sale of capital assets	249	-	249
Miscellaneous	168,197	-	168,197
<i>Total general revenues</i>	<u>4,827,858</u>	<u>7,596</u>	<u>4,835,454</u>
<i>Total revenues</i>	<u>5,790,470</u>	<u>11,122,751</u>	<u>16,913,221</u>
Expenses:			
General government	877,284	-	877,284
Security of persons and property	1,925,419	-	1,925,419
Public health and welfare	476,303	-	476,303
Transportation	678,129	-	678,129
Community environment	349,643	-	349,643
Leisure time activity	138,189	-	138,189
Other	54,582	-	54,582
Interest and fiscal charges	188,539	-	188,539
Water	-	2,682,691	2,682,691
Sewer	-	1,883,304	1,883,304
Electric	-	7,072,840	7,072,840
<i>Total expenses</i>	<u>4,688,088</u>	<u>11,638,835</u>	<u>16,326,923</u>
Increase/(decrease) in net assets before transfers	1,102,382	(516,084)	586,298
Transfers	<u>(1,103,543)</u>	<u>1,103,543</u>	<u>-</u>
<i>Increase/(decrease) in net assets</i>	<u>\$ (1,161)</u>	<u>\$ 587,459</u>	<u>\$ 586,298</u>

Governmental Activities

Governmental activities net assets decreased \$1,161 in 2003. This slight decrease is a result of slightly increasing expenses which exceeded the increases in municipal income taxes and property taxes versus amounts reported in the prior year.

Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$1,925,419 which accounted for 11.79 percent of the total expenses of the City. These expenses were partially funded by \$91,962 in direct charges to users of the services and \$11,524 in operating grants and contributions. General government expenses

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

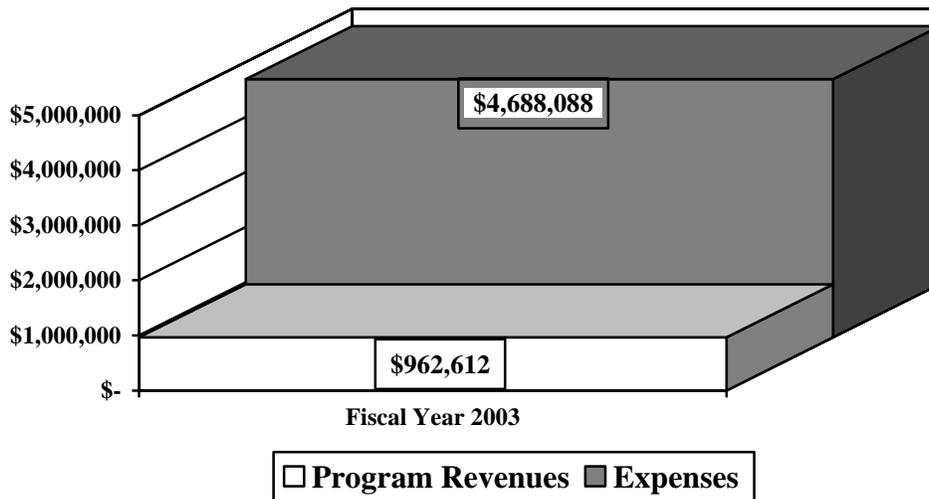
totaled \$877,284 which was partially funded by \$211,452 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$271,416 in operating grants and contributions and \$294,757 in capital grants and contributions. These revenues are restricted to a particular program or purpose. The entire amount of capital grants and contributions received subsidized transportation programs.

General revenues totaled \$4,827,858, and amounted to 83.38 percent of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$3,916,495. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$334,603. In August 2001, the State placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2002.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities – Program Revenues vs. Total Expenses



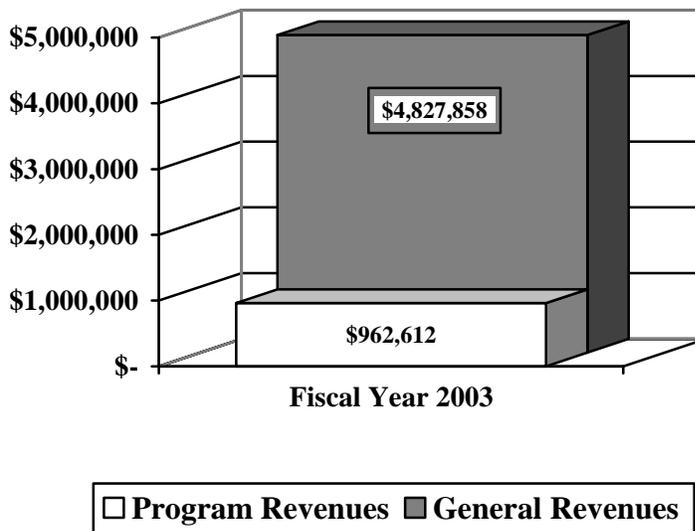
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)

Governmental Activities		
	Total Cost of Services 2003	Net Cost of Services 2003
Program Expenses:		
General government	\$ 877,284	\$ 665,832
Security of persons and property	1,925,419	1,821,933
Public health and welfare	476,303	422,745
Transportation	678,129	134,960
Community environment	349,643	331,115
Leisure time activity	138,189	105,770
Other	54,582	54,582
Interest and fiscal charges	188,539	188,539
<i>Total Expenses</i>	\$ 4,688,088	\$ 3,725,476

The dependence upon general revenues for governmental activities is apparent, with 79.47 percent of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



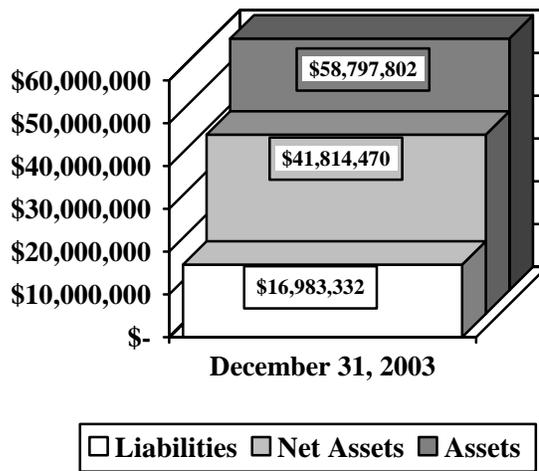
**CITY OF CLYDE
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

Business-Type Activities

Business-type activities include the water, sewer, and electric enterprise funds. These programs had program revenues of \$11,115,155, general revenues of \$7,596, transfers in of \$1,103,543 and expenses of \$11,638,835 for 2003. The graph below shows the business-type activities assets, liabilities, and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 24) reported a combined fund balance of \$1,755,550 which is \$1,686,673 below last year's total of \$3,442,223 (as restated). The December 31, 2002 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balances and the

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)

total change in fund balances as of December 31, 2003 for all major and nonmajor governmental funds.

	Fund Balances 12/31/03	Fund Balances 12/31/02	Increase (Decrease)
Major funds:			
General	\$ 1,551,238	\$ 2,108,859	\$ (557,621)
Permanent improvement	(282,855)	874,248	(1,157,103)
Other nonmajor governmental funds	487,167	459,116	28,051
<i>Total</i>	<u>\$ 1,755,550</u>	<u>\$ 3,442,223</u>	<u>\$ (1,686,673)</u>

General Fund

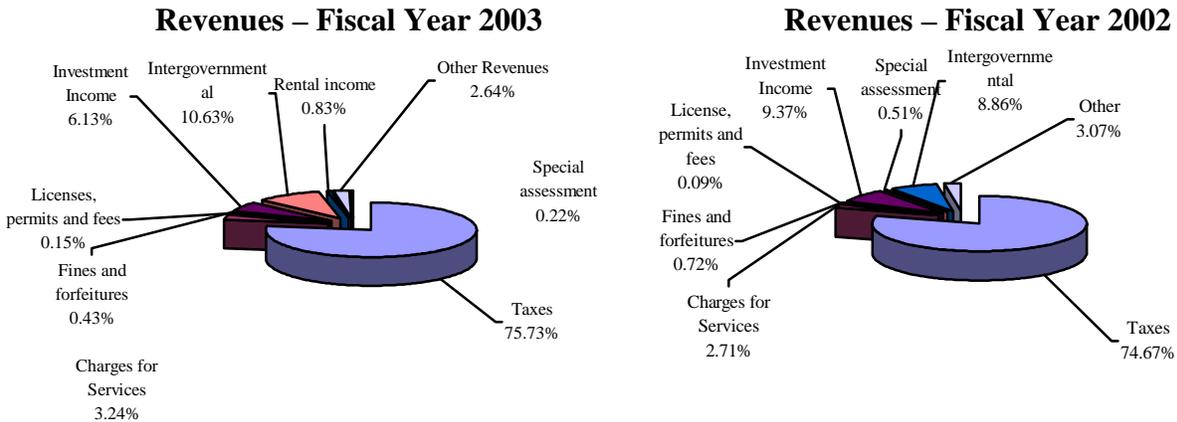
The City's general fund balance decreased \$557,621, primarily due to transfers out to other funds in the amount of \$700,000. The table that follows assists in illustrating the revenues of the general fund.

	2003 Amount	2002 Amount	Percentage Change
Revenues			
Taxes	\$ 2,659,097	\$ 2,707,689	(1.79%)
Charges for services	113,828	98,385	15.70%
Licenses, permits and fees	5,178	3,132	65.33%
Fines and forfeitures	15,269	26,270	(41.88%)
Investment income	215,176	339,648	(36.65%)
Special assessments	7,556	18,588	(59.35%)
Intergovernmental	373,370	321,270	16.22%
Rental income	29,277	-	100.00%
Other	92,697	111,432	(16.57%)
<i>Total</i>	<u>\$ 3,511,448</u>	<u>\$ 3,626,414</u>	3.17%

Tax revenue represents 75.73 percent of all general fund revenue. The tax revenue in 2002 has been restated for income taxes transferred to the Permanent Improvement fund in 2002, which should have been recorded as tax revenue in that fund. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. In addition, rental income was included in other revenue in the past. All other revenue remained comparable to 2002.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**



The table that follows assists in illustrating the expenditures of the general fund.

	2003 Amount	2002 Amount	Percentage Change
Expenditures			
General government	\$ 809,110	\$ 684,936	18.13%
Security of persons and property	1,767,025	1,779,882	(0.72%)
Public health and welfare	392,758	80,938	385.26%
Community environment	342,239	359,163	(4.71%)
Other	36,915	92,284	(60.00%)
Capital outlay	-	50,321	(100.00%)
Principal retirement	21,271	-	100.00%
Interest and fiscal charges	-	3,768	(100.00%)
Total	\$ 3,369,318	\$ 3,051,292	10.56%

The most significant increase was in the area of public health and welfare. This increase is primarily due to the increase in employees for the cities parks and cemeteries, which were previously paid from other departments. All other expenditures remained comparable to 2002. The largest expenditure line item, general government, increased slightly, which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services.

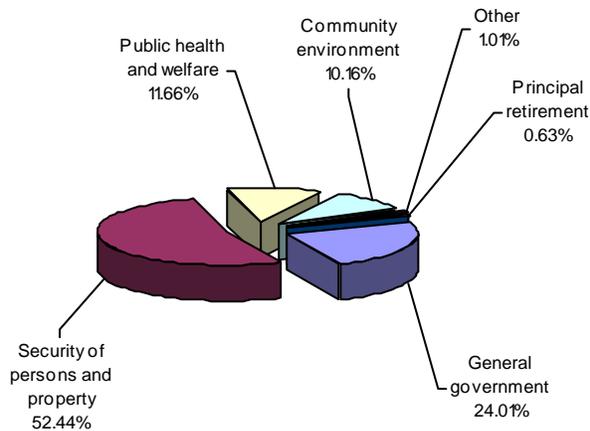
Permanent Improvement Fund

The decrease in the fund balance of the permanent improvement fund was due to expenditures for capital projects.

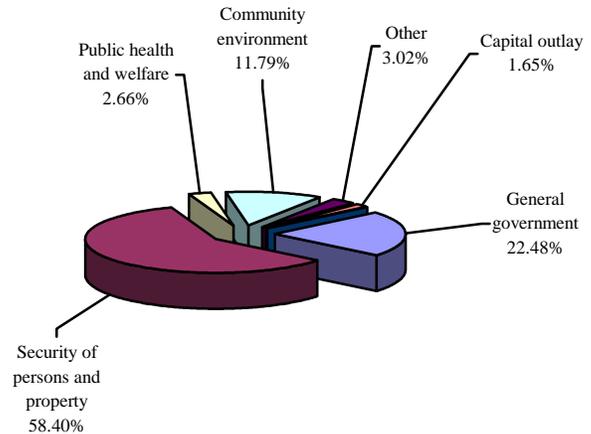
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

Expenditures - Fiscal Year 2003



Expenditures - Fiscal Year 2002



Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund only. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures, which increased \$129,107 from \$3,661,662 to \$3,790,769. Actual revenues and other financing sources of \$3,854,976 were less than final budgeted revenues and other financing sources by \$21,105. Actual expenditures and other financing uses came in \$364,434 lower than the final budgeted amounts.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities. The only interfund activity reported in the government wide statements are those between business-type activities and

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the City had \$51,264,535 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, equipment, vehicles, infrastructure and construction in progress. Of this total, \$5,333,956 was reported in governmental activities and \$45,930,579 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002 (as restated in note 9 to the basic financial statements):

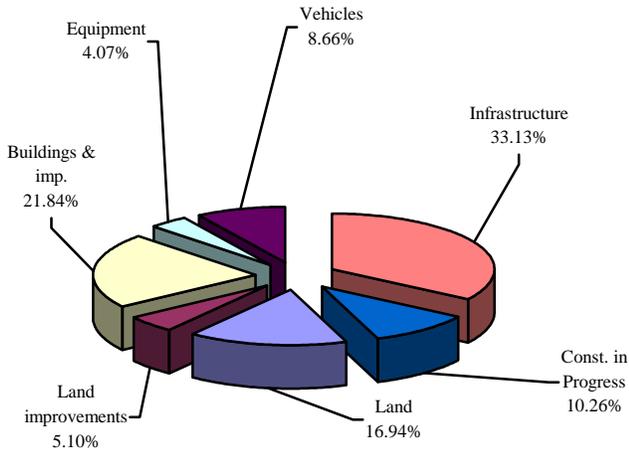
	Capital Assets at December 31 (Net of Depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 903,733	\$ 903,733	\$ 505,683	\$ 505,683	\$ 1,409,416	\$ 1,409,416
Construction-in-progress	547,260	797,261	-	1,742,400	547,260	2,539,661
Land improvements	271,934	315,024	127,887	147,840	399,821	462,864
Buildings and improvements	1,164,671	1,230,310	8,141,722	8,411,507	9,306,393	9,641,817
Equipment	217,228	241,106	1,982,793	2,157,912	2,200,021	2,399,018
Vehicles	462,122	472,433	297,236	314,345	759,358	786,778
Infrastructure	1,767,008	-	34,875,258	32,143,260	36,642,266	32,143,260
Totals	\$ 5,333,956	\$ 3,959,867	\$ 45,930,579	\$ 45,422,947	\$ 51,264,535	\$ 49,382,814

The following graphs show the breakdown of governmental capital assets by category for 2003 and 2002.

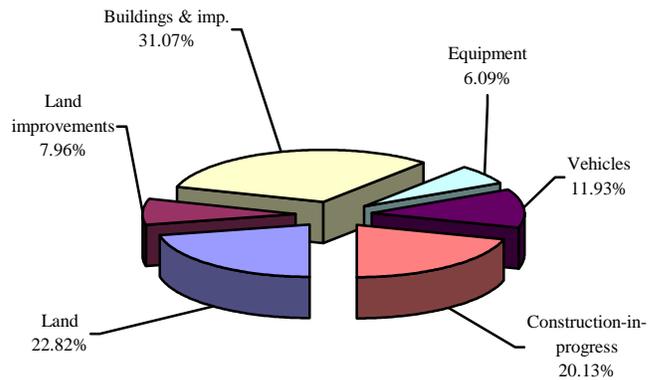
**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

Capital Assets - Governmental Activities 2003



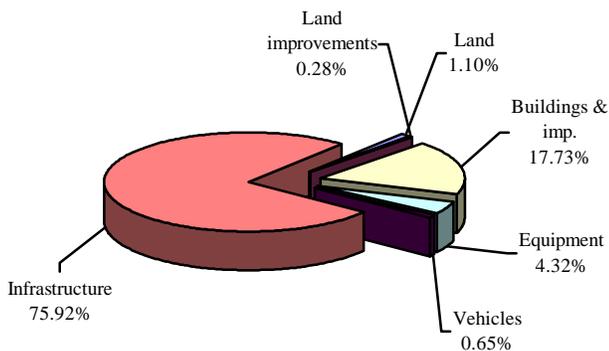
Capital Assets - Governmental Activities 2002



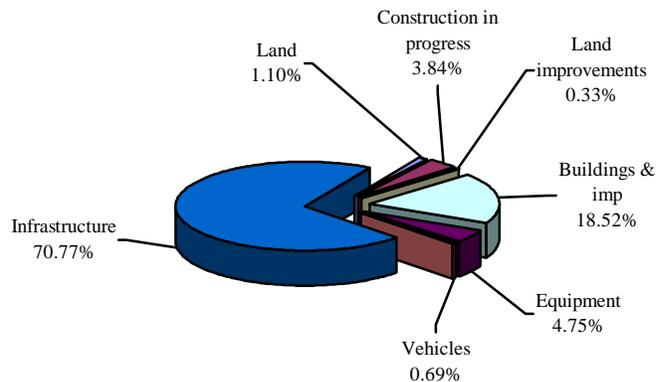
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The City is only reporting current year infrastructure in the governmental capital assets, but will add the City's infrastructure in the next reporting year.

The following graphs show the breakdown of business-type capital assets by category for 2003 and 2002.

Capital Assets - Business-Type Activities 2003



Capital Assets - Business-Type Activities 2002



**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 75.92 percent of the City's total business-type capital assets.

Debt Administration

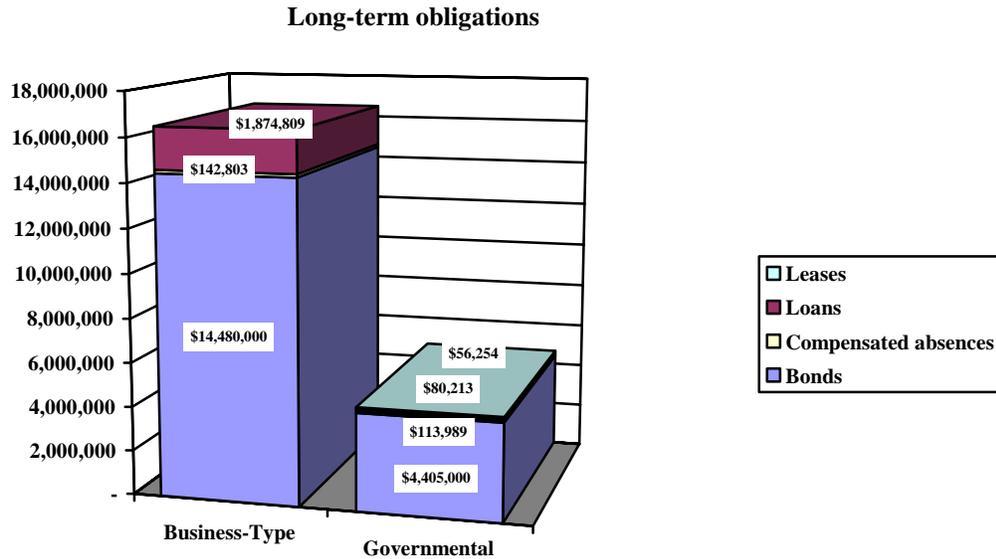
The City had the following long-term obligations outstanding at December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Governmental Activities		
General obligation bonds payable	\$ 4,405,000	\$ 4,660,000
Compensated absences	113,989	97,971
Capital lease obligation payable	56,254	-
Police Pension liability	80,213	81,412
<i>Total long-term obligations</i>	<u>\$ 4,655,456</u>	<u>\$ 4,839,383</u>
 Business-type Activities		
Revenue bonds	\$ 7,855,000	\$ 8,355,000
General obligation bonds	6,625,000	6,785,000
<i>Total bonds</i>	<u>14,480,000</u>	<u>15,140,000</u>
OWDA Loans	1,874,809	1,546,480
Compensated absences	142,083	121,030
<i>Total long-term obligations</i>	<u>\$ 16,496,892</u>	<u>\$ 16,807,510</u>

A comparison of the long-term obligations by category is depicted in the chart below.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**



Economic Conditions and Outlook

As the local economy goes, so goes the condition of the City of Clyde’s General Fund. The vast majority of jobs in the City are in manufacturing, and fortunately, the manufacturing base continues to show strength. Recent investments in Clyde facilities include an announced \$23 million upgrade to the Whirlpool Corporation’s washing machine plant for an upgraded assembly line; a \$7.2 million expansion at Evergreen Plastics, a rapidly growing supplier of recycled plastic products; and a \$3.0 million project by Titan Plastics for a new product assembly line.

Growth in the retail sector continues at a steady pace. The recent completion of Clyde’s first “shopping center”, with Discount Drug Mart as the anchor store; a new Arby’s restaurant; Sterling, a fuel and convenient store chain (currently under construction); and a brand new Old Fort Banking Company facility, are changing the face of Clyde’s main thoroughfare (US Route 20) for the better.

Residential development is also progressing; three major residential subdivisions are currently underway. In 2003, the City issued three times the number of building permits as in 2002, and this trend is expected to continue through 2004 and beyond.

A large portion of General Fund revenues comes from the City’s 1.5 percent income tax, much of which is derived from the manufacturing sector. Growth in overall income tax collections

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

between 2000 and 2002 were flat, at about \$3.0 million per year, but increased 4.0 percent in 2003. Year-to-date collections in 2004 indicate an additional increase of approximately 2.0 percent.

In recent years, the City's General Fund cash balance has declined from \$1.8 million in 2000, representing 46 percent of annual expenditures, to \$1.0 million in 2003, representing 26 percent of annual expenditures. The decline has been due to several large projects, which are now completed, and significant declines in investment income, due to near record low interest rates. As the City takes a brief respite from major construction projects, and interest rates begin to climb, balances in the General Fund should stabilize and begin to grow again.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Dan Weaver, City Manager, City of Clyde, 222 N. Main Street, Clyde, Ohio 43410.

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,554,011	\$ 10,781,764	\$ 12,335,775
Receivables (net of allowances for uncollectibles):			
Income taxes	906,896	-	906,896
Real and other taxes	334,722	59,509	394,231
Accounts	30,612	619,383	649,995
Special assessments	165,491	-	165,491
Accrued interest	69,956	-	69,956
Internal balances	(49,004)	49,004	-
Due from other governments	226,831	1,151	227,982
Materials and supplies inventory	16,948	248,199	265,147
Unamortized bond issue costs	-	378,029	378,029
Deferred charges	-	730,184	730,184
Capital assets:			
Land and construction-in-progress	1,450,993	505,683	1,956,676
Depreciable capital assets, net	3,882,963	45,424,896	49,307,859
<i>Total capital assets, net</i>	<u>5,333,956</u>	<u>45,930,579</u>	<u>51,264,535</u>
<i>Total assets</i>	<u>8,590,419</u>	<u>58,797,802</u>	<u>67,388,221</u>
Liabilities:			
Accounts payable	515,233	102,589	617,822
Accrued wages and benefits	105,701	73,739	179,440
Pension obligation payable	42,789	34,224	77,013
Deferred revenue	323,098	-	323,098
Due to other governments	-	388	388
Accrued interest payable	15,595	275,500	291,095
Long-term liabilities:			
Due within one year	338,342	814,660	1,153,002
Due in more than one year	4,317,114	15,682,232	19,999,346
<i>Total liabilities</i>	<u>5,657,872</u>	<u>16,983,332</u>	<u>22,641,204</u>
Net assets:			
Invested in capital assets, net of related debt	872,702	29,575,770	30,448,472
Restricted for:			
Debt service	5,423	1,706,768	1,712,191
Other purposes	428,575	-	428,575
Unrestricted	1,625,847	10,531,932	12,157,779
<i>Total net assets</i>	<u>\$ 2,932,547</u>	<u>\$ 41,814,470</u>	<u>\$ 44,747,017</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

	Expenses
Governmental Activities:	
General government	\$ 877,284
Security of persons and property	1,925,419
Public health and welfare	476,303
Transportation	678,129
Community environment	349,643
Leisure time activity	138,189
Other	54,582
Interest and fiscal charges	188,539
<i>Total governmental activities</i>	4,688,088
Business-type Activities:	
Water	2,682,691
Sewer	1,883,304
Electric	7,072,840
<i>Total business-type activities</i>	11,638,835
<i>Total primary government</i>	\$ 16,326,923

General Revenues:

Property taxes levied for:

- General purposes
- Police and fire pension

Income taxes levied for:

- General purposes
- Capital projects

Special assessments

Grants and entitlements not restricted to specific programs

Gain from sale of capital assets

Investment earnings

Miscellaneous

Total general revenues

Transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
			Governmental Activities	Business-type Activities	Total
\$ 211,452	\$ -	\$ -	\$ (665,832)	\$ -	\$ (665,832)
91,962	11,524	-	(1,821,933)	-	(1,821,933)
42,918	10,640	-	(422,745)	-	(422,745)
-	248,412	294,757	(134,960)	-	(134,960)
18,528	-	-	(331,115)	-	(331,115)
32,419	-	-	(105,770)	-	(105,770)
-	-	-	(54,582)	-	(54,582)
-	-	-	(188,539)	-	(188,539)
<u>397,279</u>	<u>270,576</u>	<u>294,757</u>	<u>(3,725,476)</u>	<u>-</u>	<u>(3,725,476)</u>
2,084,012	840	-	-	(597,839)	(597,839)
1,442,629	-	-	-	(440,675)	(440,675)
7,587,674	-	-	-	514,834	514,834
<u>11,114,315</u>	<u>840</u>	<u>-</u>	<u>-</u>	<u>(523,680)</u>	<u>(523,680)</u>
<u>\$ 11,511,594</u>	<u>\$ 271,416</u>	<u>\$ 294,757</u>	<u>(3,725,476)</u>	<u>(523,680)</u>	<u>(4,249,156)</u>
			606,421	-	606,421
			29,257	-	29,257
			2,107,757	-	2,107,757
			1,173,060	-	1,173,060
			178,716	-	178,716
			334,603	-	334,603
			249	-	249
			229,598	7,596	237,194
			168,197	-	168,197
			4,827,858	7,596	4,835,454
			(1,103,543)	1,103,543	-
			(1,161)	587,459	586,298
			2,933,708	41,227,011	44,160,719
			<u>\$ 2,932,547</u>	<u>\$ 41,814,470</u>	<u>\$ 44,747,017</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003**

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 997,237	\$ 1,115	\$ 355,135	\$ 1,353,487
Receivables (net of allowance for uncollectibles):				
Income taxes	634,827	272,069	-	906,896
Real and other taxes	300,535	-	34,187	334,722
Accounts	30,374	-	238	30,612
Special assessments	52,687	112,804	-	165,491
Accrued interest	67,829	-	2,013	69,842
Due from other funds	59,251	-	-	59,251
Due from other governments	119,009	-	107,822	226,831
Materials and supplies inventory	1,645	-	437	2,082
Restricted assets:				
Equity in pooled cash and cash equivalents	67,415	-	105,073	172,488
<i>Total assets</i>	<u>\$ 2,330,809</u>	<u>\$ 385,988</u>	<u>\$ 604,905</u>	<u>\$ 3,321,702</u>
Liabilities:				
Accounts payable	\$ 92,087	\$ 411,070	\$ 2,784	\$ 505,941
Accrued wages and benefits	91,165	-	1,826	92,991
Pension obligation payable	37,049	-	803	37,852
Deferred revenue	559,270	152,043	112,325	823,638
Accrued interest payable	-	264	-	264
Advances from other funds	-	105,466	-	105,466
<i>Total liabilities</i>	<u>779,571</u>	<u>668,843</u>	<u>117,738</u>	<u>1,566,152</u>
Equity and other credits:				
Reserved for encumbrances	95,837	-	2,181	98,018
Reserved for advances	-	105,466	-	105,466
Reserved for materials and supplies inventory	1,645	-	437	2,082
Unreserved, undesignated, reported in:				
General fund	1,453,756	-	-	1,453,756
Special revenue funds	-	-	363,053	363,053
Debt service fund	-	-	5,423	5,423
Capital projects funds	-	(388,321)	116,073	(272,248)
<i>Total fund balances</i>	<u>1,551,238</u>	<u>(282,855)</u>	<u>487,167</u>	<u>1,755,550</u>
<i>Total liabilities and fund balances</i>	<u>\$ 2,330,809</u>	<u>\$ 385,988</u>	<u>\$ 604,905</u>	<u>\$ 3,321,702</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2003**

Total governmental fund balances		\$ 1,755,550
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities (excluding internal service funds capital assets) are not financial resources and therefore are not reported in the funds.		5,065,870
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 10,888	
Income taxes	130,795	
Special assessments	165,491	
Intergovernmental revenues	130,469	
Interest	<u>62,897</u>	
 Total		 500,540
The internal service funds are used by management to charge the costs of employee benefits and service department to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets, including internal balances of \$2,789.		270,997
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities (excluding amounts reported in internal service funds) are as follows:		
General obligation bonds	(4,405,000)	
Police pension liability	(80,213)	
Capital lease payable	(56,254)	
Compensated absences	(103,612)	
Accrued interest	<u>(15,331)</u>	
 Total		 <u>(4,660,410)</u>
 <i>Net assets of governmental activities</i>		 <u><u>\$ 2,932,547</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	\$ 2,047,821	\$ 1,133,821	\$ -	\$ 3,181,642
Real and other taxes	611,276	-	29,659	640,935
Charges for services	113,828	-	30,122	143,950
Licenses, permits and fees	5,178	-	-	5,178
Fines and forfeitures	15,269	-	4,199	19,468
Special assessments	7,556	43,931	-	51,487
Intergovernmental	373,370	257,629	238,547	869,546
Investment income	215,176	-	7,730	222,906
Rental income	29,277	-	-	29,277
Other	92,697	273,379	121,291	487,367
<i>Total revenues</i>	<u>3,511,448</u>	<u>1,708,760</u>	<u>431,548</u>	<u>5,651,756</u>
Expenditures:				
Current:				
General government	809,110	29,434	-	838,544
Security of persons and property	1,767,025	-	17,794	1,784,819
Public health and welfare	392,758	-	15,800	408,558
Transportation	-	-	310,178	310,178
Community environment	342,239	-	-	342,239
Leisure time activity	-	-	138,572	138,572
Other	36,915	-	16,458	53,373
Capital outlay	-	1,892,437	-	1,892,437
Debt service:				
Principal retirement	21,271	-	256,199	277,470
Interest and fiscal charges	-	3,528	185,417	188,945
<i>Total expenditures</i>	<u>3,369,318</u>	<u>1,925,399</u>	<u>940,418</u>	<u>6,235,135</u>
<i>Excess of revenues over (under) expenditures</i>	<u>142,130</u>	<u>(216,639)</u>	<u>(508,870)</u>	<u>(583,379)</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	249	-	-	249
Transfers in	-	600,000	536,921	1,136,921
Transfers out	(700,000)	(1,540,464)	-	(2,240,464)
<i>Total other financing sources (uses)</i>	<u>(699,751)</u>	<u>(940,464)</u>	<u>536,921</u>	<u>(1,103,294)</u>
<i>Net change in fund balances</i>	(557,621)	(1,157,103)	28,051	(1,686,673)
<i>Fund balances at beginning of year (restated)</i>	<u>2,108,859</u>	<u>874,248</u>	<u>459,116</u>	<u>3,442,223</u>
<i>Fund balances at end of year</i>	<u>\$ 1,551,238</u>	<u>\$ (282,855)</u>	<u>\$ 487,167</u>	<u>\$ 1,755,550</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Net change in fund balances - total governmental funds \$ (1,686,673)

*Amounts reported for governmental activities in the
statement of activities are different because:*

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,637,901) exceeded depreciation expense (\$261,340) in the current period. Both amounts are exclusive of internal service funds activity. 1,376,561

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 138,119

Repayment of bonds, loans and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 277,470

Proceeds of capital leases are reported as an other financing source in the governmental funds, but as an increase in liabilities on the statement of activities. (77,525)

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. 406

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (15,754)

The internal service funds used by management to charge the costs of insurance and the City parking garage to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal services funds, including internal balances of \$14,615 and \$346 of interest revenue, is allocated among the governmental activities. (13,765)

Change in net assets of governmental activities \$ (1,161)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Income taxes	\$ 2,152,689	2,171,796	\$ 2,248,950	\$ 77,154
Real and other taxes	313,468	316,250	319,252	3,002
Charges for services	256,325	258,600	298,867	40,267
Licenses, permits and fees	3,866	3,900	5,178	1,278
Fines and forfeitures	24,780	25,000	15,618	(9,382)
Intergovernmental	309,032	311,775	307,751	(4,024)
Special assessments	29,736	30,000	7,556	(22,444)
Investment income	346,921	350,000	208,277	(141,723)
Other	79,058	79,760	97,814	18,054
<i>Total revenues</i>	<u>3,515,875</u>	<u>3,547,081</u>	<u>3,509,263</u>	<u>(37,818)</u>
Expenditures:				
Current:				
General government	803,812	1,009,772	930,254	79,518
Security of persons and property	1,964,792	1,917,920	1,808,588	109,332
Public health and welfare	412,313	412,332	388,684	23,648
Community environment	335,339	380,339	333,129	47,210
Other	145,406	70,406	53,544	16,862
<i>Total expenditures</i>	<u>3,661,662</u>	<u>3,790,769</u>	<u>3,514,199</u>	<u>276,570</u>
<i>Excess of revenues over expenditures</i>	<u>(145,787)</u>	<u>(243,688)</u>	<u>(4,936)</u>	<u>238,752</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	1,000	1,000	249	(751)
Contingencies	-	-	(2,915)	(2,915)
Transfers in	290,000	290,000	296,049	6,049
Transfers out	(1,345,200)	(938,000)	(734,000)	204,000
Other financing sources	38,000	38,000	49,415	11,415
Other financing uses	-	-	(113,221)	(113,221)
<i>Total other financing sources (uses)</i>	<u>(1,016,200)</u>	<u>(609,000)</u>	<u>(504,423)</u>	<u>104,577</u>
<i>Net change in fund balance</i>	<u>(1,161,987)</u>	<u>(852,688)</u>	<u>(509,359)</u>	<u>343,329</u>
<i>Fund balance at beginning of year (restated)</i>	1,350,902	1,350,902	1,350,902	-
Prior year encumbrances appropriated	46,701	46,701	46,701	-
<i>Fund balance at end of year</i>	<u>\$ 235,616</u>	<u>\$ 544,915</u>	<u>\$ 888,244</u>	<u>\$ 343,329</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003**

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Total</u>	Activities - Internal Service Funds
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 2,016,418	\$ 2,034,873	\$ 4,905,325	\$ 8,956,616	\$ 28,036
Receivables (net of allowance for uncollectibles):					
Excise taxes	-	-	59,509	59,509	-
Accounts	104,330	69,937	445,116	619,383	-
Accrued interest	-	-	-	-	114
Due from other governments	1,151	-	-	1,151	-
Materials and supplies inventory	27,035	16,658	204,506	248,199	14,866
Unamortized bond issuance costs	41,789	-	336,240	378,029	-
Deferred charges	-	-	730,184	730,184	-
<i>Total current assets</i>	<u>2,190,723</u>	<u>2,121,468</u>	<u>6,680,880</u>	<u>10,993,071</u>	<u>43,016</u>
Noncurrent assets:					
Advances to other funds	-	-	105,466	105,466	-
Restricted cash and cash equivalents	583,293	-	1,241,855	1,825,148	-
Capital assets:					
Land	421,238	61,101	23,344	505,683	-
Depreciable capital assets, net	16,941,622	18,252,862	10,230,412	45,424,896	268,086
<i>Total capital assets</i>	<u>17,362,860</u>	<u>18,313,963</u>	<u>10,253,756</u>	<u>45,930,579</u>	<u>268,086</u>
<i>Total noncurrent assets</i>	<u>17,946,153</u>	<u>18,313,963</u>	<u>11,601,077</u>	<u>47,755,727</u>	<u>268,086</u>
<i>Total assets</i>	<u>20,136,876</u>	<u>20,435,431</u>	<u>18,281,957</u>	<u>58,748,798</u>	<u>311,102</u>
Liabilities:					
Current liabilities:					
Accounts payable	36,582	16,822	49,185	102,589	9,292
Accrued wages and benefits	29,798	24,416	19,525	73,739	12,710
Pension obligation payable	13,365	11,896	8,963	34,224	4,937
Due to other governments	130	-	258	388	-
Accrued interest payable	109,415	10,344	155,741	275,500	-
Due to other funds	-	-	59,251	59,251	-
Payable from restricted assets:					
Current portion of revenue bonds	-	-	525,000	525,000	-
Current portion of general obligation bonds	185,000	-	-	185,000	-
Current portion of OWDA loans payable	57,826	20,024	-	77,850	-
<i>Total current liabilities</i>	<u>432,116</u>	<u>83,502</u>	<u>817,923</u>	<u>1,333,541</u>	<u>26,939</u>

(Continued)

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003
(Continued)**

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Total</u>	Activities - Internal Service Funds
Long-term liabilities:					
Compensated absences	71,315	56,832	13,936	142,083	10,377
Revenue bonds payable	-	-	7,330,000	7,330,000	-
General obligation bonds payable	6,440,000	-	-	6,440,000	-
OWDA loans payable	1,286,494	510,465	-	1,796,959	-
<i>Total long-term liabilities</i>	<u>7,797,809</u>	<u>567,297</u>	<u>7,343,936</u>	<u>15,709,042</u>	<u>10,377</u>
<i>Total long-term liabilities</i>	<u>7,797,809</u>	<u>567,297</u>	<u>7,343,936</u>	<u>15,709,042</u>	<u>10,377</u>
<i>Total liabilities</i>	<u>8,229,925</u>	<u>650,799</u>	<u>8,161,859</u>	<u>17,042,583</u>	<u>37,316</u>
Net assets:					
Invested in capital assets, net of related debt	9,393,540	17,783,474	2,398,756	29,575,770	-
Reserved for debt service	614,930	-	1,091,838	1,706,768	-
Unreserved, unrestricted	1,898,481	2,001,158	6,629,504	10,529,143	273,786
<i>Total net assets</i>	<u>\$11,906,951</u>	<u>\$19,784,632</u>	<u>\$10,120,098</u>	<u>41,811,681</u>	<u>\$ 273,786</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				<u>2,789</u>	
<i>Net assets of business-type activities.</i>				<u>\$41,814,470</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Business-type Activities				Governmental Activities - Internal Service Funds
	Water	Sewer	Electric	Total	
Operating revenues:					
Charges for services	\$ 2,078,338	\$ 1,440,938	\$ 7,585,183	\$11,104,459	\$ 684,039
Other operating revenues	5,674	1,691	2,491	9,856	-
<i>Total operating revenues</i>	<u>2,084,012</u>	<u>1,442,629</u>	<u>7,587,674</u>	<u>11,114,315</u>	<u>684,039</u>
Operating expenses:					
Personal services	945,550	768,007	725,962	2,439,519	444,673
Contract services	355,137	320,038	5,332,984	6,008,159	53,096
Materials and supplies	492,837	306,681	144,534	944,052	138,252
Depreciation	513,946	468,707	311,773	1,294,426	59,340
<i>Total operating expenses</i>	<u>2,307,470</u>	<u>1,863,433</u>	<u>6,515,253</u>	<u>10,686,156</u>	<u>695,361</u>
Operating income (loss)	<u>(223,458)</u>	<u>(420,804)</u>	<u>1,072,421</u>	<u>428,159</u>	<u>(11,322)</u>
Nonoperating revenues (expenses):					
Interest expense and fiscal charges	(378,010)	(19,871)	(556,181)	(954,062)	-
Interest revenue	1,084	-	-	1,084	346
Intergovernmental	840	-	6,512	7,352	-
Excise tax expense	-	-	(1,406)	(1,406)	-
<i>Total nonoperating revenues (expenses)</i>	<u>(376,086)</u>	<u>(19,871)</u>	<u>(551,075)</u>	<u>(947,032)</u>	<u>346</u>
<i>Income (loss) before contributions and transfers</i>	<u>(599,544)</u>	<u>(440,675)</u>	<u>521,346</u>	<u>(518,873)</u>	<u>(10,976)</u>
<i>Transfers in</i>	<u>180,709</u>	<u>922,834</u>	<u>-</u>	<u>1,103,543</u>	<u>-</u>
<i>Changes in net assets</i>	<u>(418,835)</u>	<u>482,159</u>	<u>521,346</u>	<u>584,670</u>	<u>(10,976)</u>
<i>Net assets at beginning of year (restated)</i>	<u>12,325,786</u>	<u>19,302,473</u>	<u>9,598,752</u>	<u>41,227,011</u>	<u>284,762</u>
<i>Net assets at end of year</i>	<u>\$11,906,951</u>	<u>\$19,784,632</u>	<u>\$10,120,098</u>	<u>41,811,681</u>	<u>\$ 273,786</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				<u>2,789</u>	
<i>Changes in net assets of business-type activities.</i>				<u>\$ 587,459</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

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

	Business-type Activities			Enterprise Funds	Governmental Activities - Internal Service Funds
	Water	Sewer	Electric	Total	
Cash flows from operating activities:					
Cash received from charges for services	\$ 2,109,138	\$ 1,425,489	\$ 7,553,178	\$11,087,805	\$ 684,039
Cash received from other operations	5,674	1,691	2,491	9,856	-
Cash payments for personal services	(937,589)	(752,433)	(718,023)	(2,408,045)	(448,258)
Cash payments for contract services	(337,493)	(316,365)	(5,332,383)	(5,986,241)	(53,456)
Cash payments for materials and supplies	(492,819)	(319,074)	(162,395)	(974,288)	(134,709)
<i>Net cash provided by operating activities</i>	<u>346,911</u>	<u>39,308</u>	<u>1,342,868</u>	<u>1,729,087</u>	<u>47,616</u>
Cash flows from noncapital financing activities:					
Cash used in other nonoperating activities	-	-	(1,406)	(1,406)	-
Transfers in from other funds	180,709	-	-	180,709	-
<i>Net cash provided by noncapital financing activities</i>	<u>180,709</u>	<u>-</u>	<u>(1,406)</u>	<u>179,303</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(384,020)	(106,526)	(294,222)	(784,768)	(56,868)
Cash received from proceeds of loans	227,738	-	-	227,738	-
Cash payments for principal retirement	(191,084)	(7,838)	(500,000)	(698,922)	-
Cash payments for interest and fiscal charges	(336,206)	(10,534)	(506,335)	(853,075)	-
<i>Net cash used in capital and related financing activities</i>	<u>(683,572)</u>	<u>(124,898)</u>	<u>(1,300,557)</u>	<u>(2,109,027)</u>	<u>(56,868)</u>
Cash flows from investing activities:					
Interest received	1,084	-	2,947	4,031	333
<i>Net cash provided by investing activities</i>	<u>1,084</u>	<u>-</u>	<u>2,947</u>	<u>4,031</u>	<u>333</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(154,868)	(85,590)	43,852	(196,606)	(8,919)
<i>Cash and cash equivalents at beginning of year (restated)</i>	<u>2,754,579</u>	<u>2,120,463</u>	<u>6,103,328</u>	<u>10,978,370</u>	<u>36,955</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 2,599,711</u></u>	<u><u>\$ 2,034,873</u></u>	<u><u>\$ 6,147,180</u></u>	<u><u>\$10,781,764</u></u>	<u><u>\$ 28,036</u></u>

(Continued)

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

	Business-type Activities			Enterprise Funds	Governmental Activities - Internal Service Funds
	Water	Sewer	Electric	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (223,458)	\$ (420,804)	\$ 1,072,421	\$ 428,159	\$ (11,322)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	513,946	468,707	311,773	1,294,426	59,340
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	30,800	(15,449)	(48,933)	(33,582)	-
(Increase) decrease in materials and supplies inventory	820	(4,194)	(29,744)	(33,118)	(4,585)
Increase (decrease) in accounts payable	15,753	(4,427)	28,933	40,259	7,768
Increase in accrued wages and benefits	3,842	2,921	2,309	9,072	(2,288)
Increase in compensated absences payable	4,573	11,048	5,432	21,053	264
Increase in pension obligation payable	505	1,506	677	2,688	(1,561)
Decrease in due to other governments	130	-	-	130	-
<i>Net cash provided by operating activities</i>	<u>\$ 346,911</u>	<u>\$ 39,308</u>	<u>\$ 1,342,868</u>	<u>\$ 1,729,087</u>	<u>\$ 47,616</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2003

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 6,509	\$ 10,000
<i>Total assets</i>	<u>6,509</u>	<u>\$ 10,000</u>
 Liabilities:		
Undistributed assets	-	\$ 10,000
<i>Total liabilities</i>	<u>-</u>	<u>\$ 10,000</u>
 Net Assets:		
Held in trust for private cemetery care	<u>6,509</u>	
<i>Total net assets</i>	<u>\$ 6,509</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	<u>Private-Purpose Trust</u>
Deductions:	
Cemetery care	<u>\$ 18</u>
<i>Total deductions</i>	<u>18</u>
Changes in net assets	(18)
<i>Net assets at the beginning of the year</i>	<u>6,527</u>
<i>Net assets at the end of the year</i>	<u><u>\$ 6,509</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Clyde (the City) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under a council-manager government. The City provides police protection within its boundaries and fire protection to its citizens and adjacent townships. The City provides basic utilities in the form of water, waste water treatment, and electric distribution. The City constructs and maintains streets and sidewalks within the City. The City also operates and maintains parks.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB Statements and Interpretations. The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

**CITY OF CLYDE
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

The primary government consists of all funds and departments which provide various services including police protection, street maintenance and repair, parks, recreation, water, sewer and electric services. Council and the City Manager are directly responsible for these activities. The accompanying financial statements present the City, which has no component units. The following organization is described due to its relationship with the City.

JOINTLY GOVERNED ORGANIZATION

Municipal Energy Services Agency (MESA)

MESA is an intergovernmental venture with other Ohio Municipalities to arrange for reliable, reasonably priced supplies of electric power and energy for ultimate delivery to consumers. The City will incur no financial obligation to MESA or the other participants unless and until it avails itself of the services of MESA.

B. Basis of Presentation - Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service funds are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct

**CITY OF CLYDE
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund financial statements. Fiduciary funds are reported by type.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. This includes, but is not limited to, police and fire protection, public health activities, cemetery, and the general administration of City functions.

Permanent Improvement Fund - The permanent improvement fund accounts for all transactions relating to the construction and improvements other than those financed by proprietary funds.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs; and (b) for grants and other resources whose use is restricted to a particular purpose.

**CITY OF CLYDE
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Electric Fund - This fund accounts for the operations providing electric services to the residents and commercial users located with the City.

Internal Service Funds - The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service funds report on the operations of the service center and health benefits.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are a private-purpose trust fund and an agency fund.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activities and operating expenses for the internal service fund include personnel costs, claims, and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and agency funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

(Continued)

of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. 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 nonexchange 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: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees, grants, interest, and special assessments.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**CITY OF CLYDE
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - 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.

F. Budgetary Data

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 resolution, 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. The legal level of budgetary control is at the fund, department, (i.e. police), and object (i.e. materials and supplies) level for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget - During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget 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.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund, department, object appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the final appropriation amounts, including all amendments and modifications legally enacted by Council.

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. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

Cash balances of the City's funds, except cash held by a fiscal agent, are pooled and invested in investments maturing within five years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During 2003, investments were limited to nonnegotiable certificates of deposit, U.S. government money market mutual funds, investments in State Treasury Asset Reserve of Ohio (STAR Ohio), and federal agency securities.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

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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 that 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.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2003 amounted to \$215,176, which included \$194,122 assigned from other funds of the City.

The City also maintains investments in the City's own securities. This is for the purpose of making loans to other funds within the City. These are reported in the enterprise funds as "Investments."

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the City's investment account at year-end is provided in Note 4.

H. Inventories of Materials and Supplies

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

**CITY OF CLYDE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

I. Restricted Assets

Assets are reported restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Resources set aside in separate escrow accounts whose use is limited to the payment of retainage to contractors upon project completion are reported as restricted. Certain resources set aside for the repayment of certain debt issues are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City changed the capitalization threshold from \$500 to \$5,000, see Note 9 for details. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Improvements to land	5 - 20 years	5 - 20 years
Buildings	20 - 40 years	20 - 40 years
Equipment	5 - 15 years	5 - 15 years
Vehicles	8 years	8 years
Infrastructure	25 - 50 years	80 years

K. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service or any employee with at least twenty (20) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16. Sick leave benefits were accrued using the "vesting" method.

The total liability for vacation, compensatory time, and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

N. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, advances, and materials and supplies inventory in the governmental fund financial statements.

P. Estimates

The preparation of the financial statements in conformity with GAAP 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.

Q. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

R. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

S. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, and electric programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

T. Extraordinary Item

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the City has implemented GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*"; GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*"; GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*"; and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*". At December 31, 2002, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37 and 38.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective

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differences result in the government not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified from expendable trust and agency funds to general, special revenue and capital projects funds to reflect their intended purpose in accordance with GASB Statement No. 34. It was determined that GASB Interpretation No. 6 had an effect on fund balances as previously reported at December 31, 2002. The City has also presented a prior period adjustment to include the interfund advance payable in the permanent improvement fund.

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	General	Permanent Improvement	Other Governmental Nonmajor	Total
Fund balance				
December 31, 2002	\$ 1,961,080	\$ 993,378	\$ 410,616	\$ 3,365,074
Fund reclassifications	20,646	-	48,500	69,146
Interfund advance payable	119,130	(119,130)	-	-
GASB Interpretation No. 6 adjustments	8,003	-	-	8,003
<i>Restated fund balance</i> <i>January 1, 2003</i>	\$ 2,108,859	\$ 874,248	\$ 459,116	\$ 3,442,223

The transition from governmental fund balance to net assets of the governmental activities is also presented.

Restated fund balance	
December 31, 2002	\$ 3,442,223
GASB Statement No. 34 adjustments:	
Capital assets	3,689,309
Internal service funds	284,762
Long-term liabilities	(4,845,007)
Long-term (deferred assets)	362,421
Governmental activities net assets, December 31, 2002	\$ 2,933,708

Business-type Activities - Restatement of Fund Equity - A prior period adjustment is required to report a change in the City's capital asset threshold from \$500 to \$5,000 and to correct errors and omissions in amounts previously reported. In addition, a restatement has been presented to reclassify an internal service fund as part of the water and sewer funds. This prior period adjustment had the following effect on fund equity as previously reported:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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	Water	Sewer	Electric	Total Enterprise Funds
Business-type Activities				
Fund equity at December 31, 2002	\$ 13,746,809	\$ 20,524,498	\$ 9,401,297	\$ 43,672,604
Fund reclassification	(4,700)	(1,326)	-	(6,026)
Adjustment for capital assets	(1,416,323)	(1,220,699)	197,455	(2,439,567)
Restated net assets at December 31, 2002	<u>\$ 12,325,786</u>	<u>\$ 19,302,473</u>	<u>\$ 9,598,752</u>	<u>\$ 41,227,011</u>

	Total Internal Service Funds
Fund equity at December 31, 2002	\$ 607,703
Fund reclassification	6,026
Adjustment for capital assets	<u>(328,967)</u>
Restated net assets at December 31, 2002	<u>\$ 284,762</u>

B. Deficit Fund Balances/Retained Earnings

Fund balances at December 31, 2003, included the following individual fund deficits:

	Deficit
Major Fund	
Permanent improvement	<u>\$ 282,855</u>

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance results from adjustments for accrued liabilities.

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C. Compliance

The following funds had expenditures plus encumbrances in excess of appropriations throughout 2003:

<u>Fund</u>	<u>Account</u>	<u>Date</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General	Capital Outlay	10/31/03	\$ 11,500	\$ 41,435	\$ (29,935)
Permanent Improvement	Contract Services	10/31/03	71,783	285,224	(213,441)
Permanent Improvement	Capital Outlay	10/31/03	1,643,385	3,064,944	(1,421,559)
Environmental Services	Capital Outlay	12/31/03	267,000	442,256	(175,256)

Expenditures plus encumbrances exceeded appropriations for the State Highway Fund – Capital Outlay, Water Fund – Capital Outlay, Electric Fund – Capital Outlay, General Services Fund – Materials and Supplies, Environmental Services Fund – Contract Services, Environmental Services Fund – Capital Outlay and Income Tax Fund – Transfers and reimbursements in amounts ranging from \$26,848 to \$75,820.

Contrary to Ohio law, the following funds had negative cash balances at October 31, 2003:

<u>Fund</u>	<u>Deficit Amount</u>
Permanent Improvement	\$ 1,125,258
Service Department	251,578
Environmental Service Department	160,487
Recreation	85,533
Fair Board	33,280

Contrary to Ohio law, the following funds had appropriations that exceeded estimated revenue at December 31, 2003:

<u>Fund</u>	<u>Estimated Revenue</u>	<u>Appropriation s</u>	<u>Variance</u>
Permanent Improvement	\$ 2,113,335	\$ 2,557,455	\$ (444,120)
Service Department	940,000	973,773	(33,773)
Environmental Service Department	689,103	753,586	(64,483)
Fair Board	65,767	66,906	(1,139)

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Monies held by the City are classified by State statute 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 the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits in interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following:

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 or 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, and Federal Home Loan Mortgage Corporation. 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) and repurchase agreements secured by such obligations, provided

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that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25 percent of interim monies available for investment at any one time. Bankers' acceptances must mature in two hundred seventy days or less and must be eligible for purchase by the Federal Reserve System. Commercial paper must be issued by a corporation incorporated under the laws of the United States or any state and must be rated in the highest category by two nationally recognized rating agencies.

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 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.

Cash on Hand: At year-end the City had \$390 in undeposited cash on hand which is included on the combined balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents".

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

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Deposits: At year-end, the carrying amount of the City’s deposits was \$8,994,490 and the bank balance was \$9,151,994. Of the bank balance:

1. \$509,989 was covered by federal depository insurance; and
2. \$7,602,205 was covered by irrevocable lines of credit or by collateral held by a qualified third party in the name of the City and \$1,040,000 was covered by collateral held by a third party trustee pursuant to § 135.181 of the Ohio Revised Code in collateral pools securing all public funds on deposit with the City’s depositories.

Investments: The City’s investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. 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. STAR Ohio and U.S. government money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Reported Amount	Fair Value
Federal agency securities	\$ 751,433	\$ 751,433	\$ 751,433
STAR Ohio	-	780,823	780,823
U.S. Government money market mutual funds (restricted)	-	1,825,148	1,825,148
Total investments	\$ 751,433	\$ 3,357,404	\$ 3,357,404

The classification of cash and cash equivalents on the basic financial statements is based on criteria set forth in GASB Statement No. 9, “*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*”.

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

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	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 12,352,284	\$ -
Investments of the cash management pool:		
STAR Ohio	(780,823)	780,823
U.S. Government money market mutual funds	(1,825,148)	1,825,148
Federal agency securities	(751,433)	751,433
Cash on hand	(390)	-
GASB Statement No. 3	\$ 8,994,490	\$ 3,357,404

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2003, consisted of the following, as reported on the fund financial statements:

Transfers to Permanent Improvement:	
General Fund	\$ 600,000
Transfers to Nonmajor Governmental Funds from:	
General Fund	100,000
Permanent Improvement	436,921
<i>Total Transfers to Nonmajor Governmental Funds</i>	536,921
Transfers to Water Fund from:	
Permanent Improvement	180,709
Transfers to Sewer Fund from:	
Permanent Improvement	922,834
<i>Total Transfers</i>	\$ 2,240,464

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Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (4) transfer assets purchased by governmental funds to enterprise funds.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 1999. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts 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.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 25 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Sandusky County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City. The County Auditor periodically remits to the City its portion of the taxes collected.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2003, and for which there was an enforceable legal claim. Although total property tax collections for the next year are

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measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2003 operations.

On the full accrual basis, collectible delinquent real property taxes have been recorded as a receivable and revenue. On the modified accrual basis, the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2003 was 3.5 mills of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real property tax	\$ 71,956,980
Public utility tangible personal property	2,139,210
Tangible personal property	<u>30,725,235</u>
Total assessed valuation	<u><u>\$ 104,821,425</u></u>

NOTE 7 - LOCAL INCOME TAX

This City locally levied tax of 1.5 percent applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City and to earnings of non residents (except certain transients) earned in the government. It also applies to net income to business organizations conducted within the City.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used to pay the cost of administering the tax. The first one percent of the income tax revenue is allocated to the General and Permanent Improvement capital projects funds, 55 percent to General, and 45 percent to Permanent Improvement. The additional one-half percent tax is placed in the General fund for municipal operations. Income tax revenue for 2003 was \$3,181,642 as reported in the fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due from Other Governments" on the financial statements. Receivables have been recorded

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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to the extent that they are measurable at December 31, 2003, as well as intended to finance fiscal 2003 operations.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Income taxes	\$ 906,896
Real and other taxes	334,722
Accounts	30,612
Accrued interest	69,956
Special assessments	165,491
Due from other governments	226,831

Business-type Activities:

Accounts	619,383
Excise tax	59,509

Receivables have been disaggregated on the face of the financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

NOTE 9 - CAPITAL ASSETS

- A.** The capital asset balances of the governmental activities and business-type activities have been restated due to the reporting of infrastructure in governmental activities and due to an increase in the capital asset threshold from \$500 to \$5,000 and the reporting of errors and omissions in the prior year in governmental activities and business-type activities. In addition, capital assets of the internal service funds are reported as a component of governmental activities.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

	Balance 12/31/02	Adjustments	Restated Balance 12/31/02
Governmental Activities:			
Land	\$ 1,201,296	\$ (297,563)	\$ 903,733
Construction in progress	-	797,261	797,261
Land improvements	229,181	691,146	920,327
Buildings and improvements	3,513,552	(962,606)	2,550,946
Furniture, machinery and equipment	1,417,043	(856,016)	561,027
Vehicles	874,554	751,156	1,625,710
Less: accumulated depreciation	(2,242,957)	(1,156,180)	(3,399,137)
Total	\$ 4,992,669	\$ (1,032,802)	\$ 3,959,867
Business-type Activities:			
Land	\$ 2,049,652	\$ (1,543,969)	\$ 505,683
Construction in progress	1,742,400	-	1,742,400
Land improvements	78,570	437,751	516,321
Buildings and improvements	13,287,927	(1,761,403)	11,526,524
Equipment - furniture	4,756,903	748,972	5,505,875
Vehicles	538,449	37,435	575,884
Infrastructure	36,215,854	-	36,215,854
Less: accumulated depreciation	(10,807,241)	(358,353)	(11,165,594)
Total	\$ 47,862,514	\$ (2,439,567)	\$ 45,422,947

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

B. Capital asset activity for the year ended December 31, 2003, was as follows:

	Restated Balance 12/31/02	Additions	Disposals	Balance 12/31/03
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 903,733	\$ -	\$ -	\$ 903,733
Construction in progress	797,261	532,306	(782,307)	547,260
<i>Total capital assets, not being depreciated</i>	<u>1,700,994</u>	<u>532,306</u>	<u>(782,307)</u>	<u>1,450,993</u>
Capital assets, being depreciated:				
Land improvements	920,327	-	-	920,327
Buildings and improvements	2,550,946	-	-	2,550,946
Equipment	561,027	15,074	-	576,101
Vehicles	1,625,710	134,165	-	1,759,875
Infrastructure	-	1,795,531	-	1,795,531
<i>Total capital assets, being depreciated</i>	<u>5,658,010</u>	<u>1,944,770</u>	<u>-</u>	<u>7,602,780</u>
Less: accumulated depreciation:				
Land improvements	(605,303)	(43,090)	-	(648,393)
Buildings and improvements	(1,320,636)	(65,639)	-	(1,386,275)
Equipment	(319,921)	(38,952)	-	(358,873)
Vehicles	(1,153,277)	(144,476)	-	(1,297,753)
Infrastructure	-	(28,523)	-	(28,523)
<i>Total accumulated depreciation</i>	<u>(3,399,137)</u>	<u>(320,680)</u>	<u>-</u>	<u>(3,719,817)</u>
<i>Total capital assets, being depreciated, net</i>	<u>2,258,873</u>	<u>1,624,090</u>	<u>-</u>	<u>3,882,963</u>
Governmental activities capital assets, net	<u>\$ 3,959,867</u>	<u>\$ 2,156,396</u>	<u>\$ (782,307)</u>	<u>\$ 5,333,956</u>

Under GASB Statement No. 34, the City has elected to “phase in” the retroactive reporting of infrastructure assets. The City plans to retroactively report infrastructure capital assets

**CITY OF CLYDE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

in the 2004 basic financial statements. Only infrastructure capital assets acquired or constructed in 2003 are reflected in the basic financial statements for the fiscal year ended December 31, 2003.

	Restated Balance 12/31/02	Additions	Disposals	Balance 12/31/03
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 505,683	\$ -	\$ -	\$ 505,683
Construction in progress	1,742,400	-	(1,742,400)	-
<i>Total capital assets, not being depreciated</i>	<u>2,248,083</u>	<u>-</u>	<u>(1,742,400)</u>	<u>505,683</u>
Capital assets, being depreciated:				
Land improvements	516,321	-	-	516,321
Buildings and improvements	11,526,524	77,439	-	11,603,963
Equipment	5,505,875	115,848	-	5,621,723
Vehicles	575,884	32,249	-	608,133
Infrastructure	36,215,854	3,318,922	-	39,534,776
<i>Total capital assets, being depreciated</i>	<u>54,340,458</u>	<u>3,544,458</u>	<u>-</u>	<u>57,884,916</u>
Less: accumulated depreciation:				
Land improvements	(368,481)	(19,953)	-	(388,434)
Buildings and improvements	(3,115,017)	(347,224)	-	(3,462,241)
Equipment	(3,347,963)	(290,967)	-	(3,638,930)
Vehicles	(261,539)	(49,358)	-	(310,897)
Infrastructure	(4,072,594)	(586,924)	-	(4,659,518)
<i>Total accumulated depreciation</i>	<u>(11,165,594)</u>	<u>(1,294,426)</u>	<u>-</u>	<u>(12,460,020)</u>
<i>Total capital assets, being depreciated, net</i>	<u>43,174,864</u>	<u>2,250,032</u>	<u>-</u>	<u>45,424,896</u>
Business-type activities capital assets, net	<u>\$ 45,422,947</u>	<u>\$ 2,250,032</u>	<u>\$ (1,742,400)</u>	<u>\$ 45,930,579</u>

**CITY OF CLYDE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 36,850
Security of persons and property	125,321
Public health and welfare	67,542
Transportation	28,523
Community environment	3,104
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>59,340</u>
<i>Total depreciation expense - governmental activities</i>	<u><u>\$ 320,680</u></u>

NOTE 10 - OTHER EMPLOYEE BENEFITS

Compensated Absences

City employees earn vacation leave at varying rates based upon length of service. In the case of death or retirement, an employee (or his estate) is paid for their unused vacation leave. The total obligation for vacation leave for the City as a whole amounted to \$34,459 at December 31, 2003. Amounts are recorded as a fund liability and/or on the government-wide financial statements as applicable.

City employees may accumulate up to 120 hours of compensatory time at time and a-half in lieu of direct pay of overtime hours worked. The total obligation for compensatory time accrual for the City as a whole amounted to \$28,537 at December 31, 2003. Amounts are recorded as a fund liability and/or on the government-wide financial statements as applicable.

City employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement an employee is paid for forty percent of their accumulated sick leave within various limits, except the fire department employees, who are part-time and do not accumulate sick leave. The total obligation for sick leave accrual for the City as a whole amounted to \$193,076 at December 31, 2003. Amounts are recorded as a fund liability and/or on the government-wide financial statements as applicable.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
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NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE

In the current year, the City entered into three capital lease agreements for the acquisition of vehicles. The leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, capital lease transactions are accounted for as capital outlay expenditure and other financing source in the appropriate fund.

For the City, a corresponding liability was recorded in the government-wide financial statements. Principal payments in 2003 totaled \$21,271 in the general fund. Capital lease payments in the general fund have been reclassified on the financial statements to reflect debt principal and interest payments. These payments are reported as program expenditures on the budgetary statement.

The following is a schedule of the future 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,	General
2004	\$ 21,271
2005	21,271
2006	21,271
<i>Total future minimum lease payments</i>	63,813
Less: amount representing interest	(7,559)
<i>Present value of net minimum lease payments</i>	\$ 56,254

NOTE 12 - LONG-TERM OBLIGATIONS

- A. The balance of the City's governmental activities long-term obligations at December 31, 2002 has been restated. The compensated absences liability increased \$18,116 from \$79,855 to \$97,971 due to fund reclassifications and the implementation of GASB Interpretation No. 6 as described in Note 3.A. The effect on the total governmental activities long-term obligations at January 1, 2003 was an increase from \$4,821,267 to \$4,839,383. During the fiscal year 2003, the following changes occurred in the City's governmental long-term obligations:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
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	Interest Rate	Restated Balance 12/31/02	Additions	Retirements	Balance 12/31/03	Amounts Due in One Year
Governmental Activities:						
General Obligation Debt:						
Woodland/Premier						
General Obligation Bonds	2.0%-4.15%	\$ 1,000,000	\$ -	\$ (85,000)	\$ 915,000	\$ 100,000
Vine/Main Street Improvements						
General Obligation Bonds	1.70%-5.0%	3,660,000	-	(170,000)	3,490,000	175,000
<i>Total general obligation debt</i>		<u>4,660,000</u>	<u>-</u>	<u>(255,000)</u>	<u>4,405,000</u>	<u>275,000</u>
Other Obligations:						
Police Pension Liability		81,412	-	(1,199)	80,213	1,251
Capital Lease Obligation		-	77,525	(21,271)	56,254	17,570
Compensated Absences		97,971	107,740	(91,722)	113,989	44,521
<i>Total other obligations</i>		<u>179,383</u>	<u>185,265</u>	<u>(114,192)</u>	<u>250,456</u>	<u>63,342</u>
<i>Total governmental activities long-term obligations</i>		<u>\$ 4,839,383</u>	<u>\$ 185,265</u>	<u>\$ (369,192)</u>	<u>\$ 4,655,456</u>	<u>\$ 338,342</u>

General Obligation Bonds: General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

In prior years, the City defeased the Main Street general obligation bond by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the City's financial statements. At December 31, 2003, \$755,000 of this debt was still outstanding.

The annual requirements amortize general long-term obligations outstanding as of December 31, 2003, are as follows:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

	Vine/Main Street		Woodland/Premier	
	Principal	Interest	Principal	Interest
2004	\$ 175,000	\$ 145,738	\$ 100,000	\$ 31,422
2005	185,000	141,537	100,000	29,222
2006	180,000	136,173	100,000	26,523
2007	190,000	130,502	100,000	23,522
2008	195,000	123,852	100,000	20,223
2009 - 2013	1,000,000	496,864	415,000	43,040
2014 - 2018	785,000	306,467	-	-
2019 - 2022	780,000	99,350	-	-
<i>Total</i>	\$ 3,490,000	\$ 1,580,483	\$ 915,000	\$ 173,952

Compensated Absences: Sick leave, compensatory time, and vacation benefits are presented net of actual increases and decreases because of the practicality of determining these values. Compensated absences reported in the statement of net assets and will be paid from the fund from which the employee's salaries are paid.

Police Pension Liability: An accrual has been setup for a legal liability for past service cost for the Police and Firemen's Disability and Pension Fund which arose when the Fund was established in 1968. The remaining unfunded pension liability is to be amortized in semi-annual installments through 2035. Principal payments are made from the Police Pension special revenue fund.

The annual requirements to amortize police pension obligations outstanding as of December 31, 2003, are as follows:

Year Ending	Police Pension	
	Principal	Interest
2004	\$ 1,251	\$ 3,447
2005	1,304	3,395
2006	1,361	3,342
2007	1,419	3,286
2008	1,480	3,227
2009 - 2013	8,411	15,171
Thereafter	64,987	37,532
Total	\$ 80,213	\$ 69,400

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

B. During the fiscal year 2003, the following changes occurred in the City's business-type long-term liabilities:

	Interest Rate	Balance 12/31/02	Additions	Retirements	Balance 12/31/03	Amount Due in One Year
Business-Type Activities:						
Mortgage Revenue Bonds						
Electric System Mortgage Revenue Refunding Bonds, Series 1998	4.0%-5.25%	\$ 3,540,000	\$ -	\$ (215,000)	\$ 3,325,000	\$ 225,000
Electric System Mortgage Revenue Refunding Bonds	3.0%-6.3%	4,815,000	-	(285,000)	4,530,000	300,000
<i>Total mortgage revenue bonds</i>	3.0%-6.3%	<u>8,355,000</u>	<u>-</u>	<u>(500,000)</u>	<u>7,855,000</u>	<u>525,000</u>
OWDA Loans						
Sewer Plant OWDA Loan	3.90%	539,334	-	(8,845)	530,489	20,024
Water System OWDA Loan	2.00%	1,007,146	368,258	(31,084)	1,344,320	57,826
<i>Total OWDA Loans</i>		<u>1,546,480</u>	<u>368,258</u>	<u>(39,929)</u>	<u>1,874,809</u>	<u>77,850</u>
General Obligation Bonds						
General Obligation Bonds Series 1997	3.0%-6.30%	5,385,000	-	(60,000)	5,325,000	60,000
Water System Improvement Revenue Bonds	2.1%-4.65%	1,400,000	-	(100,000)	1,300,000	125,000
<i>Total general obligation bonds</i>		<u>6,785,000</u>	<u>-</u>	<u>(160,000)</u>	<u>6,625,000</u>	<u>185,000</u>
Other Obligations						
Compensated Absences		121,030	131,215	(110,162)	142,083	26,810
<i>Total other obligations</i>		<u>121,030</u>	<u>131,215</u>	<u>(110,162)</u>	<u>142,083</u>	<u>26,810</u>
Total business-type activities long-term obligations		<u>\$ 16,807,510</u>	<u>\$ 499,473</u>	<u>\$ (810,091)</u>	<u>\$ 16,496,892</u>	<u>\$ 814,660</u>

Mortgage Revenue Bonds: Outstanding mortgage revenue bonds consist of Electric System Mortgage Revenue issues. Mortgage revenue bonds are direct obligations of the City's electric utility and the revenues derived from the sale of electricity are pledged to repay this debt.

Water Improvement Revenue Bonds are general obligation bonds which will be financed mainly from water revenues and are therefore recorded as enterprise fund debt.

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(Continued)

In prior years, the City defeased Electric System Mortgage Revenue Bonds, Series B by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the City's financial statements. At December 31, 2003, \$3,400,000 of this debt was still outstanding.

OWDA Loans: The City has entered into debt financing arrangements through the OWDA to fund construction projects. The amounts due to the OWDA are payable from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2003, the City has outstanding borrowings of \$1,874,809 with permissible borrowings of \$2,088,428. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. The Green Springs Waterline Extension project financed through OWDA loans is not closed out as of December 31, 2003.

The annual requirements to amortize enterprise fund obligations outstanding as of year-end are as follows:

Year Ending	Electric Revenue Bonds		Water Improvement G.O. Bonds		OWDA Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 525,000	\$ 479,412	\$ 185,000	\$ 315,730	\$ 77,850	\$ 47,816
2005	550,000	449,337	195,000	308,886	81,578	44,594
2006	585,000	417,470	200,000	301,080	83,619	42,553
2007	625,000	381,700	205,000	292,706	85,717	40,455
2008	660,000	343,480	220,000	283,613	87,873	38,299
2009 - 2013	3,965,000	1,055,388	1,095,000	1,256,572	473,895	156,965
2014 - 2018	945,000	58,350	580,000	1,069,125	537,720	93,140
2019 - 2023	-	-	745,000	906,375	446,557	22,085
2024 - 2028	-	-	950,000	698,125	-	-
2029 - 2033	-	-	1,210,000	432,250	-	-
2034 - 2037	-	-	1,040,000	106,125	-	-
<i>Total</i>	<u>\$ 7,855,000</u>	<u>\$ 3,185,137</u>	<u>\$ 6,625,000</u>	<u>\$ 5,970,587</u>	<u>\$ 1,874,809</u>	<u>\$ 485,907</u>

C. Legal Debt Margin

The City's voted and unvoted legal debt margins were \$6,606,673 and \$1,365,601, respectively, at December 31, 2003.

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NOTE 13 - INTERFUND ADVANCES

The City had the following interfund loan activity in the permanent improvement fund for fiscal year 2003:

	Interest Rate	Issue Date	Balance 12/31/02	Additions	Retirements	Balance 12/31/03
Land Acquisition	3.00%	8/1/00	<u>\$ 118,829</u>	<u>\$ -</u>	<u>\$ (13,363)</u>	<u>\$ 105,466</u>

The interfund loan outstanding at December 31, 2003 is an internal City note that represents amounts borrowed from other funds of the City. This note is structured in essentially the same manner as note agreements with outside institutions. The Electric enterprise fund loaned the monies to the permanent improvement fund and has reported "Advances to other funds" on the combined balance sheet for the principal amounts due at December 31, 2003.

The following is a summary of the City's future annual debt service and interest requirements for the internal City's note:

Year Ending December 31,	Principal	Interest	Total
2004	\$ 13,764	\$ 3,164	\$ 16,928
2005	14,177	2,751	16,928
2006	14,602	2,326	16,928
2007	15,040	1,888	16,928
2008	15,492	1,436	16,928
2009 - 2011	<u>32,391</u>	<u>1,465</u>	<u>33,856</u>
<i>Total</i>	<u>\$ 105,466</u>	<u>\$ 13,030</u>	<u>\$ 118,496</u>

NOTE 14 – DUE TO/FROM OTHER FUNDS

Due from/to other funds consisted of the following at December 31, 2003, as reported on the fund financial statements:

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Receivable Fund	Payable Fund	Amount
General fund	Electric Fund	\$ 59,251

The balances resulted from the time lag between the dates that payments between the funds are made.

NOTE 15 - RISK MANAGEMENT

A. Property and Casualty Insurance

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective township.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003:

Casualty Coverage	2003
Assets	\$ 25,288,098
Liabilities	(12,872,985)
Retained Earnings	\$ 12,415,113
Property Coverage	2003
Assets	\$ 3,158,813
Liabilities	(792,061)
Retained Earnings	\$ 2,366,752

B. Employee Health Insurance

The City participates with other cities in the Buckeye Ohio Risk Management Association (BORMA), in a jointly funded risk financing program administered by Core Source, Inc.

The pool is for employee benefits and includes life insurance, accidental death and dismemberment insurance, health insurance and prescription drug insurance. Each member has an option on the coverage it has elected to provide for its employees. The City provides, to its employees, all available options offered by the pool. The employee benefits pools include the following municipalities: Archbold, Bowling Green, Carey, Clyde, Defiance, Fayette, Hicksville, Napoleon, Oberlin, Sandusky, Upper Sandusky, and Willard. As of December 31, 2003 the pool had cash reserves of \$2,397,520 which, in the opinion of management, is adequate for any claims against the pool.

BORMA has the ability to require the member cities to make supplemental payments in the event reserves are not adequate to cover claims. The probability of this occurring is

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considered remote due to the adequacy of the pool reserves and premium levels, therefore, no amount has been reserved in the financial statements. Audited financial statements are maintained separately by BORMA.

The City continues to carry commercial insurance for all other risks of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in coverage from the prior year.

NOTE 16 - DEFINED BENEFIT PENSION PLANS

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 percent 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.

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

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

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 for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$220,793, \$215,948, and \$237,338, respectively; 100 percent has been contributed for 2002 and 2001. 92 percent has been contributed for 2003; \$17,650 represents the unpaid portion which is reported as a liability in the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2003.

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 statements 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 10.0 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 police for the years ended December 31, 2003, 2002, and 2001 were \$77,903, \$91,895, and \$81,420, respectively. The full amount has been contributed for 2002 and 2001. 91 percent for police and fire has been contributed for 2003 with the remainder of \$7,057 being reported as a liability in the respective funds.

NOTE 17 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

(Continued)

provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to 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 (16.70 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' 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 postemployment benefits were \$129,118. The actual contribution and the actuarially required contribution amounts are the same. OPERS' 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

**CITY OF CLYDE
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

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 Postemployment Benefit (OPEB) as described in GASB Statement No. 12, *“Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers”*. 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 postemployment 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.

The City’s actual contributions for 2003 that were used to fund postemployment benefits were \$48,775 for police. 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 (the latest information available), was 13,527 for police and 10,396 for firefighters.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in

**CITY OF CLYDE
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

Net Change in Fund Balance	
	General
Budget basis	\$ (509,359)
Net adjustment for revenue accruals	2,185
Net adjustment for expenditure accruals	(29,039)
Net adjustment for other sources/uses	(195,328)
Adjustment for encumbrances	173,920
GAAP basis	\$ (557,621)

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 19 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2003.

B. Litigation

The City is currently not involved in pending litigation at year-end.

NOTE 20 - MASTER LEASE-PURCHASE AND SUBLEASE PURCHASE AGREEMENT

To provide for the acquisition, construction, equipping, improvement and installing of a new hospital in Bellevue, Ohio and to retire the Bellevue Hospital Series 2002 note, the City has authorized a master lease-purchase and sublease-purchase agreement dated July 1, 2003, with Fifth Third Bank, and the Bellevue Hospital in a principal amount of \$10,000,000. The agreement includes a statement to the effect that the City's obligations thereunder, which constitute "revenue obligations" within the meaning of section 140.06 of the Act, are not obligations, debt, or bonded indebtedness of the City. As of 12/31/03 the principal outstanding aggregated \$10,000,000.

NOTE 21 - SUBSEQUENT EVENT

On January 20, 2004, the City council authorized the issuance of electric system limited tax general obligation bonds, Series 2004, in the aggregate principal amount of \$4,345,000. The Bonds are issued to provide a portion of the funds necessary to currently refund \$4,530,000 principal amount of the City's Electric System Mortgage Revenue Refunding Bonds, Series 1993. The 1993 Revenue Bonds were issued to advance refund a prior issue of the City's electric system mortgage revenue bonds, the proceeds of which were used to acquire and construct a portion of the City's electric distribution system.

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**Auditor of State
Betty Montgomery**

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

City of Clyde
Sandusky County
222 Main Street
Clyde, Ohio 43410-1655

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clyde (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 9, 2004, which was qualified due to our inability to obtain sufficient evidential matter supporting infrastructure capital assets, accumulated depreciation, depreciation expense, and related net asset restrictions of the business-type activities, the Water Fund, Sewer Fund, and the Electric Fund. We also noted that the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and changed its capital assets threshold policy during 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of

findings as items 2003-001, 2003-002, and 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated November 9, 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 opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated November 9, 2004.

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

November 9, 2004

**CITY OF CLYDE
SANDUSKY COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2003

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Revised Code § 5705.39 states that total appropriations from each fund shall not exceed total estimated revenue. The City's appropriations exceeded estimated resources in the following funds at December 31, 2003:

<u>Fund Name</u>	<u>Fund Number</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Fair Board Fund	965	\$ 65,767	\$ 66,906	\$ (1,139)
Permanent Improvement Fund	401	2,113,335	2,557,455	(444,120)
Environmental Services Fund	730	940,000	973,773	(33,773)
Service Department Fund	710	689,103	753,586	(64,483)

Failure to limit appropriations to estimated could result in expenditures exceeding available resources. The City should review estimated resources prior to appropriating the funds.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.10 requires money paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates money from one fund was used to cover the expenses of another fund. The following funds had deficit fund balances at October 31, 2003:

<u>Fund Name</u>	<u>Fund Number</u>	<u>Fund Balance</u>
Recreation Fund	216	\$ (85,533)
Permanent Improvement Fund	401	(1,125,258)
Service Department Fund	710	(251,578)
Environmental Service Department	730	(160,487)
Fair Board Fund	965	(33,280)

FINDING NUMBER 2003-002
(Continued)

In most cases, the deficits are the result of spending expected revenue prior to actually receiving the funds. It is recommended that deficit fund balances be prohibited. Further, transfers or advances should be made prior to fund cash balances entering a deficit.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

The City had expenditures that exceeded appropriations as follows:

October 31, 2003				
Fund	Account	Appropriations and Carryover	Expenditures and Encumbrances	Variance
General	Fire Capital Outlay	\$ 11,500	\$ 41,435	\$ (29,935)
State Highway	Capital Outlay	-	28,292	(28,292)
Permanent Improvement	Contract Services	71,783	285,224	(213,441)
Permanent Improvement	Capital Outlay	1,643,385	3,064,944	(1,421,559)
Water	Capital Outlay	198,243	274,063	(75,820)
Electric	Capital Outlay	408,169	435,017	(26,848)
General Services	Materials and Supplies	91,992	132,637	(40,645)
Environmental Services	Contract Services	57,205	121,564	(64,359)
Environmental Services	Capital Outlay	217,000	265,706	(48,706)
Income Tax	Transfers and reimbursements	2,844,054	2,903,646	(59,592)
Environmental Services	Capital Outlay	267,000	442,256	(175,256)

Budgetary expenditures exceeded the appropriation authority for several other funds in smaller, relative amounts. The Finance Director should not certify the availability of funds and should deny payment requests exceeding appropriations. The Finance Director may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2003-004

Material Weakness - Capital Assets

The City does not maintain an adequate detailed capital asset listing for infrastructure for its business-type activities, Water Fund, Sewer Fund, and Electric Fund and did not establish a policy manual for its capital assets. The failure to maintain an accurate capital asset listing could increase the risk that capital assets may be inaccurate for reporting and insurance purposes and increase the possibility of theft or loss without detection. Not maintaining a policy manual for capital assets increases the probability that assets may not be properly safeguarded.

We recommend the City establish a capital asset policy manual. The policy manual would define asset classes, asset lives, and items that need to be capitalized (i.e. difference between road repairs and reconstructed roads). The manual should also address the policy in place to track additions and deletions and procedures to maintain an up-to-date capital asset listing for all funds.

The City should obtain a capital asset listing for its infrastructure capital assets. The capital asset listing should include opening balances, additions and deletions by category and fund, ending balances, current and accumulated depreciation (if applicable), carrying amounts for all assets, location and purchase date. The capital asset system should also assign each asset to a functional category so that the City can allocate depreciation expense to proper functions. The capital asset procedures should include documents for the addition and deletion of capital assets with approval signatures of the responsible officials and a procedure to report this information to the Finance Director.

**CITY OF CLYDE
SANDUSKY COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	ORC § 5705.41(B)- Expenditures shall not exceed appropriations	No	Not corrected, Repeat as finding number 2003-001.
2002-002	ORC § 5705.41(D) – Certification should be signed prior to expenditure obligation.	No	Partially corrected. Repeated in the management letter.



**Auditor of State
Betty Montgomery**

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**CITY OF CLYDE
SANDUSKY COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 14, 2004**