



**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 43410-1637

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, 2005, 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 described 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 assets restrictions in 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 Electric Fund of the City of Clyde, Sandusky County, Ohio, as of December 31, 2005, and the respective changes in financial 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 governmental activities, General and Permanent Improvement Funds, and the aggregate remaining fund information of the City of Clyde, Sandusky County, Ohio, as of December 31, 2005, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

December 6, 2006

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The management's 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, 2005. 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 2005 are as follows:

- The total net assets of the City increased \$2,568,118. Net assets of governmental activities increased \$818,773 or 20.23% over 2004 and net assets of business-type activities increased \$1,749,345 or 4.19% over 2004.
- General revenues accounted for \$5,184,529 or 84.0% of total governmental activities revenue. Program specific revenues accounted for \$987,251 or 15.99% of total governmental activities revenue of \$6,171,780.
- The City had \$4,930,194 in expenses related to governmental activities; \$987,251 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,942,943 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,184,529.
- The general fund had revenues and other financing sources of \$4,727,667 in 2005. This represents an increase of \$797,080 from 2004 revenues. The expenditures and other financing uses of the general fund, which totaled \$4,603,785 in 2005, increased \$588,327 from 2004. The net increase in fund balance for the general fund was \$123,882 or 8.45%.
- The permanent improvement fund had revenues and other financing sources of \$1,598,729 in 2005, which is an increase of \$193,375 from 2004 revenues. The expenditures and other financing uses in the permanent improvement fund totaled \$1,310,060 in 2005, which increased \$270,500 from 2004. The net increase in fund balance was \$288,669, resulting in an ending fund balance of \$371,608.
- Net assets for the business-type activities, which are made up of the Water, Sewer, and Electric enterprise funds, increased in 2005 by \$1,749,345. This increase in net assets was due primarily to adequate charges for services revenue to cover operating expenses.
- In the general fund, the actual revenues and other financing sources exceed the budgeted revenues by \$447,261 and actual expenditures and other financing uses were \$340,062 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources increased \$763,834 during the year. Budgeted expenditures and other financing uses increased \$974,200 from the original to the final budget due primarily to an increase in the cost of security of persons and property expenditures.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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 2005?" 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.

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 goods or services provided. The City's water, sewer, and electric operations are reported here.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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.

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 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 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.

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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 a private-purpose trust.

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.

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2005 and 2004. Certain 2004 amounts have been restated as described in Note 3.A of the notes to the financial statements.

| | Net Assets | | | | 2005 Total | Restated 2004 Total |
|---|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|----------------------|---------------------------|
| | Governmental Activities 2005 | Business-type Activities 2005 | Governmental Activities 2004 | Business-type Activities 2004 | | |
| | | | | | | |
| Assets | | | | | | |
| Current and other assets | \$ 3,997,098 | \$ 13,094,093 | \$ 3,574,035 | \$ 11,736,675 | \$ 17,091,191 | \$ 15,310,710 |
| Capital assets, net | <u>6,085,706</u> | <u>45,001,134</u> | <u>5,491,335</u> | <u>45,317,887</u> | <u>51,086,840</u> | <u>50,809,222</u> |
| Total assets | <u>10,082,804</u> | <u>58,095,227</u> | <u>9,065,370</u> | <u>57,054,562</u> | <u>68,178,031</u> | <u>66,119,932</u> |
| Liabilities | | | | | | |
| Long-term liabilities outstanding | 4,400,389 | 14,181,567 | 4,367,860 | 14,945,809 | 18,581,956 | 19,313,669 |
| Other liabilities | <u>817,240</u> | <u>450,868</u> | <u>651,108</u> | <u>395,306</u> | <u>1,268,108</u> | <u>1,046,414</u> |
| Total liabilities | <u>5,217,629</u> | <u>14,632,435</u> | <u>5,018,968</u> | <u>15,341,115</u> | <u>19,850,064</u> | <u>20,360,083</u> |
| Net Assets | | | | | | |
| Invested in capital assets, net of related debt | 1,883,618 | 30,990,206 | 1,303,877 | 30,088,036 | 32,873,824 | 31,391,913 |
| Restricted | 1,142,035 | 1,478,425 | 849,599 | 1,473,507 | 2,620,460 | 2,323,106 |
| Unrestricted | <u>1,839,522</u> | <u>10,994,161</u> | <u>1,892,926</u> | <u>10,151,904</u> | <u>12,833,683</u> | <u>12,044,830</u> |
| Total net assets | <u>\$ 4,865,175</u> | <u>\$ 43,462,792</u> | <u>\$ 4,046,402</u> | <u>\$ 41,713,447</u> | <u>\$ 48,327,967</u> | <u>\$ 45,759,849</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$48,327,967. At year-end, net assets were \$4,865,175 and \$43,462,792 for the governmental activities and the business-type activities, respectively.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 74.93% 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, 2005, were \$1,883,618 and \$30,990,206 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available 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, 2005, 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, \$2,620,460, 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 \$1,839,522 in the governmental activities 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 2005 and 2004. Certain revenues in the 2004 governmental activities have been restated in order to be consistent with the classification of these revenues in 2005, there was no effect on net assets, only total program revenues and total general revenues. Certain 2004 amounts in the business type activities have been restated as described in Note 3.A of the notes to the financial statements.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

| | Change in Net Assets | | | | 2005 Total | Restated 2004 Total |
|--|----------------------|----------------------|------------------------------------|-------------------------------------|----------------------|---------------------------|
| | Governmental | Business-type | Restated | Restated | | |
| | Activities 2005 | Activities 2005 | Governmental Activities 2004 | Business-type Activities 2004 | | |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 193,951 | \$ 13,082,780 | \$ 200,501 | \$ 11,776,175 | \$ 13,276,731 | \$ 11,976,676 |
| Operating grants and contributions | 362,513 | | 294,368 | 75,052 | 362,513 | 369,420 |
| Capital grants and contributions | 430,787 | - | 50,209 | 154,145 | 430,787 | 204,354 |
| Total program revenues | 987,251 | 13,082,780 | 545,078 | 12,005,372 | 14,070,031 | 12,550,450 |
| General revenues: | | | | | | |
| Property taxes | 744,203 | | 743,804 | | 744,203 | 743,804 |
| Income taxes | 3,535,471 | | 3,405,165 | | 3,535,471 | 3,405,165 |
| Special assessments | | | 40,976 | | | 40,976 |
| Unrestricted grants and entitlements | 497,447 | | 356,377 | | 497,447 | 356,377 |
| Investment earnings | 310,020 | 33,510 | 189,943 | 40,033 | 343,530 | 229,976 |
| Miscellaneous | 97,388 | - | 164,005 | - | 97,388 | 164,005 |
| Total general revenues | 5,184,529 | 33,510 | 4,900,270 | 40,033 | 5,218,039 | 4,940,303 |
| Total revenues | 6,171,780 | 13,116,290 | 5,445,348 | 12,045,405 | 19,288,070 | 17,490,753 |
| Expenses: | | | | | | |
| General government | 856,538 | | 806,286 | | 856,538 | 806,286 |
| Security of persons and property | 1,971,347 | | 1,982,398 | | 1,971,347 | 1,982,398 |
| Public health and welfare | 449,428 | | 445,748 | | 449,428 | 445,748 |
| Transportation | 588,662 | | 227,157 | | 588,662 | 227,157 |
| Community environment | 677,767 | | 317,038 | | 677,767 | 317,038 |
| Leisure time activity | 138,504 | | 145,086 | | 138,504 | 145,086 |
| Other | 60,656 | | 45,451 | | 60,656 | 45,451 |
| Interest and fiscal charges | 187,292 | | 187,099 | | 187,292 | 187,099 |
| Water | | 2,315,226 | | 2,534,119 | 2,315,226 | 2,534,119 |
| Sewer | | 2,144,824 | | 1,860,207 | 2,144,824 | 1,860,207 |
| Electric | - | 7,329,708 | - | 7,927,332 | 7,329,708 | 7,927,332 |
| Total expenses | 4,930,194 | 11,789,758 | 4,156,263 | 12,321,658 | 16,719,952 | 16,477,921 |
| Increase in net assets before transfers | 1,241,586 | 1,326,532 | 1,289,085 | (276,253) | 2,568,118 | 1,012,832 |
| Transfers | (422,813) | 422,813 | (175,230) | 175,230 | - | - |
| Change in net assets | 818,773 | 1,749,345 | 1,113,855 | (101,023) | 2,568,118 | 1,012,832 |
| Net assets at beginning of year (Restated) | 4,046,402 | 41,713,447 | 2,932,547 | 41,814,470 | 45,759,849 | 44,747,017 |
| Net assets at end of year | \$ 4,865,175 | \$ 43,462,792 | \$ 4,046,402 | \$ 41,713,447 | \$ 48,327,967 | \$ 45,759,849 |

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Governmental Activities

Governmental activities net assets increased \$818,773 in 2005. The increase is a result of increasing revenues which exceeded increased expenses.

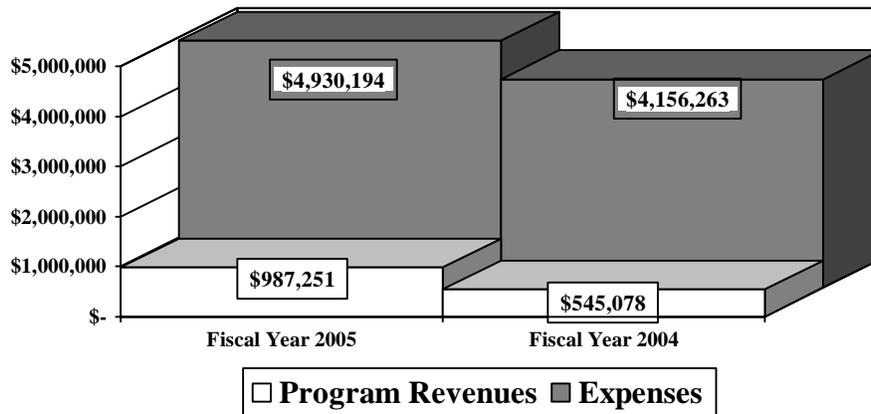
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$1,971,347 which accounted for 40% of the total governmental activities expenses of the City. These expenses were partially funded by \$103,982 in direct charges to users of the services. General government expenses totaled \$856,538 which was partially funded by \$14,645 in direct charges to users of the services and \$397,190 in capital grants and contributions.

The state and federal government contributed to the City a total of \$362,513 in operating grants and contributions and \$430,787 in capital grants and contributions. These revenues are restricted to a particular program or purpose. \$33,597 of the capital grants and contributions received subsidized transportation programs.

General revenues totaled \$5,184,529 and amounted to 84.00% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,279,674. 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 \$497,447.

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.

Governmental Activities – Program Revenues vs. Total Expenses



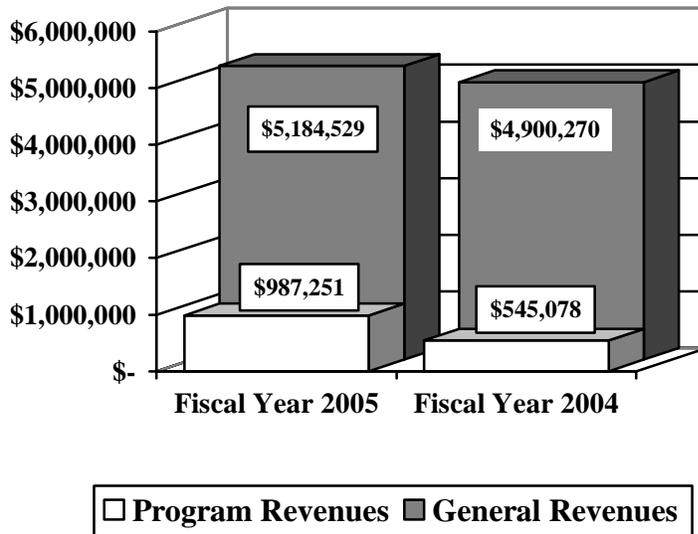
**CITY OF CLYDE
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

| | Governmental Activities | | | |
|----------------------------------|--------------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | 2005 | 2005 | 2004 | 2004 |
| Program Expenses: | | | | |
| General government | \$ 856,538 | \$ 444,703 | \$ 806,286 | \$ 763,366 |
| Security of persons and property | 1,971,347 | 1,864,360 | 1,982,398 | 1,876,299 |
| Public health and welfare | 449,428 | 386,954 | 445,748 | 389,992 |
| Transportation | 588,662 | 254,109 | 227,157 | (58,163) |
| Community environment | 677,767 | 642,404 | 317,038 | 298,814 |
| Leisure time activity | 138,504 | 102,465 | 145,086 | 108,327 |
| Other | 60,656 | 60,656 | 45,451 | 45,451 |
| Interest and fiscal charges | 187,292 | 187,292 | 187,099 | 187,099 |
| Total | \$ 4,930,194 | \$ 3,942,943 | \$ 4,156,263 | \$3,611,185 |

The dependence upon general revenues for governmental activities is apparent, with 79.98% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



**CITY OF CLYDE
SANDUSKY COUNTY**

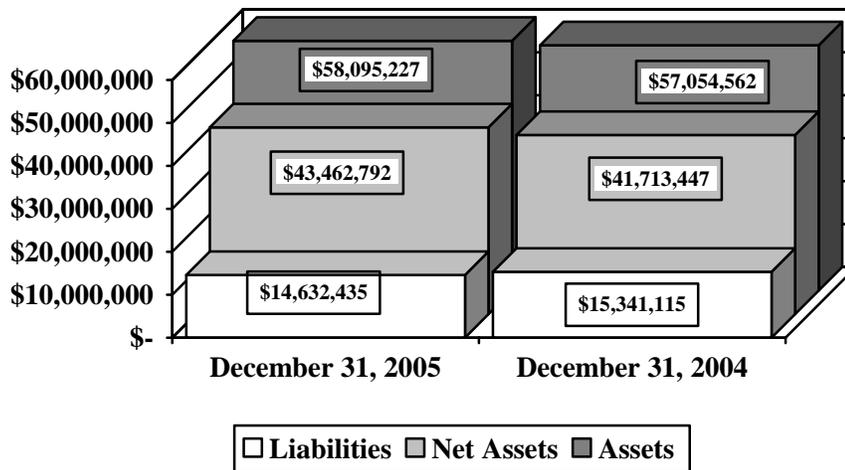
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Business-type Activities

Business-type activities include the water, sewer, and electric enterprise funds. These programs had program revenues of \$13,082,780, general revenues of \$33,510, transfers in of \$402,362 and expenses of \$11,789,758 for 2005. The Water fund had expenses of \$2,315,226 which were 95.81% funded by user charges for services which totaled \$2,218,430. The Water fund also received capital contributions of capital assets from governmental funds totaling \$20,451. The Sewer fund had expenses of \$2,144,824 which were 72.68% funded by user charges for services of \$1,558,791. The Electric fund had expenses of \$7,329,708 which were fully funded by user charges for services which totaled \$9,305,559. The Electric fund also received transfers from the governmental funds totaling \$402,362.

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 reported a combined fund balance of \$2,499,726 which is \$395,081 above last year's total of \$2,104,645. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005, for all major and nonmajor governmental funds.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

| | <u>Fund Balances</u> <u>12/31/05</u> | <u>Fund Balances</u> <u>12/31/04</u> | <u>Increase</u> <u>(Decrease)</u> |
|-----------------------------------|---|---|--------------------------------------|
| Major funds: | | | |
| General | \$ 1,590,249 | \$ 1,466,367 | \$ 123,882 |
| Permanent improvement | 371,608 | 82,939 | 288,669 |
| Other nonmajor governmental funds | <u>537,869</u> | <u>555,339</u> | <u>(17,470)</u> |
| Total | <u>\$ 2,499,726</u> | <u>\$ 2,104,645</u> | <u>\$ 395,081</u> |
| General Fund | | | |

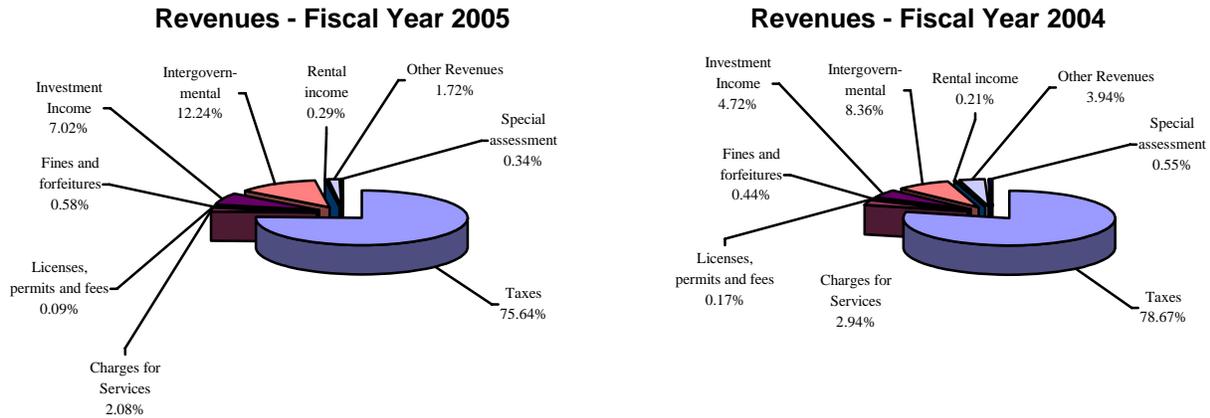
The City's general fund balance increased \$123,882, primarily due to revenues exceeding expenditures for the year. The table that follows assists in illustrating the revenues of the general fund.

| | | | |
|----------------------------|-------------------------|-------------------------|-------------|
| Taxes | \$ 3,290,831 | \$ 3,031,310 | 8.56 % |
| Charges for services | 90,604 | 113,356 | (20.07) % |
| Licenses, permits and fees | 4,165 | 6,507 | (35.99) % |
| Fines and forfeitures | 25,077 | 17,135 | 46.35 % |
| Special assessments | 14,805 | 21,036 | (29.62) % |
| Intergovernmental | 532,485 | 322,088 | 65.32 % |
| Investment income | 305,534 | 181,871 | 67.99 % |
| Rental income | 12,769 | 7,999 | 59.63 % |
| Other | <u>101,397</u> | <u>152,027</u> | (33.30) % |
| Total | <u>\$ 4,377,667</u> | <u>\$ 3,853,329</u> | 13.61 % |

Tax revenue represents 75.63% of all general fund revenue. The City had a slight increase in tax collections. The increase in investment income is due to increases in interest rates and a significant increase in the total invested by the City during the year, especially in certificates of deposit. Rental income increased during the year as a result of a ground lease to the Whirlpool Corporation. Licenses, permits and fees revenues decreased 36% following the significant increase of 25% which occurred in 2004. The increase in intergovernmental revenues included a slight increase in local government revenue and a significant increase in estate taxes.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**



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

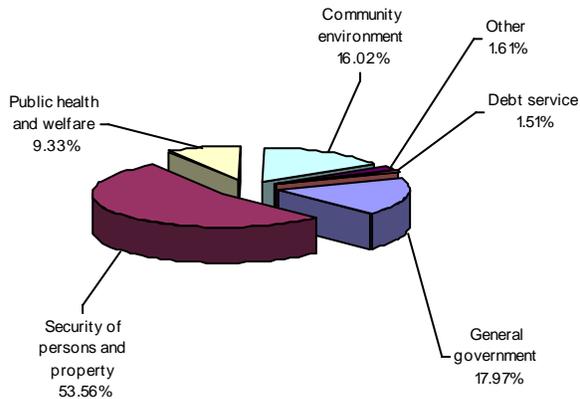
| | <u>2005</u> <u>Amount</u> | <u>2004</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|----------------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Expenditures</u> | | | |
| General government | \$ 728,357 | \$ 788,136 | (7.58) % |
| Security of persons and property | 2,172,138 | 1,862,384 | 16.63 % |
| Public health and welfare | 378,507 | 376,657 | 0.49 % |
| Community environment | 649,628 | 321,694 | 101.94 % |
| Other | 65,390 | 67,421 | (3.01) % |
| Capital outlay | | 25,720 | 100.00 % |
| Debt service | 61,259 | 28,446 | 115.35 % |
| Total | <u>\$ 4,055,279</u> | <u>\$ 3,470,458</u> | 16.85 % |

The largest expenditure line item, security of persons and property, experienced an increase which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services. Also at the end of 2004 the Police Department was finally fully staffed again, after some vacancies in the department which occurred during 2003 and early 2004 – part of the increases were seen in 2004, however they continued into 2005. Debt service increased because the City leased an additional vehicle for the police department in 2004 and a full year of lease payments were made during 2005. Capital outlay decreased because there were no significant capital asset purchases made from the General fund in 2005.

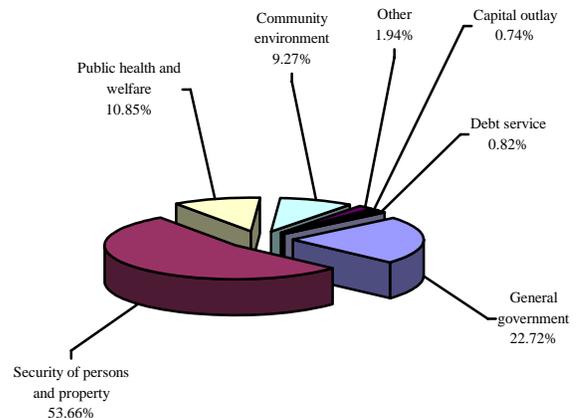
**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Expenditures - Fiscal Year 2005



Expenditures - Fiscal Year 2004



Permanent Improvement Fund

The increase in the fund balance of the permanent improvement fund of \$288,669 was due to an increase in income tax revenues in addition to a new grant received in 2005.

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 amounts were in the area of appropriations, which increased \$974,200 from \$4,400,871 to \$5,375,071. Original appropriations of \$4,400,871 were increased to \$5,375,071 primarily due to the purchase of a fire truck and sidewalk improvements not completed in the prior year. Actual revenues and other financing sources of \$5,038,750 exceeded the final budgeted revenues and other financing sources by \$447,261. Actual expenditures and other financing uses came in \$340,062 less than the final budgeted amounts.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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 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 2005, the City had \$51,086,840 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, equipment, vehicles, infrastructure and construction in progress. Of this total, \$6,085,706 was reported in governmental activities and \$45,001,134 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at December 31
(Net of Depreciation)**

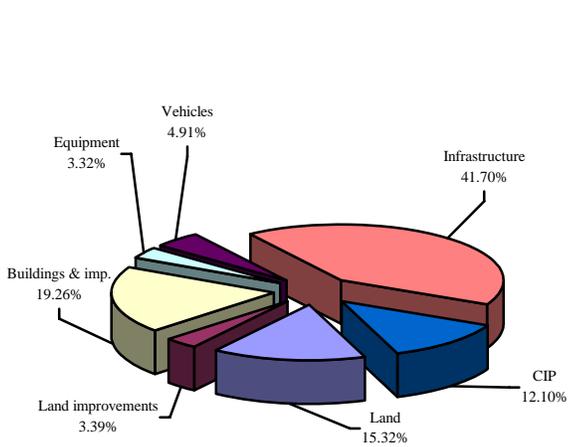
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|----------------------------|--------------------------------|---------------------|---------------------------------|----------------------|----------------------|----------------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Land | \$ 932,596 | \$ 903,733 | \$ 576,820 | \$ 500,820 | \$ 1,509,416 | \$ 1,404,553 |
| Construction-in-progress | 736,502 | 14,467 | 465,044 | 351,726 | 1,201,546 | 366,193 |
| Land improvements | 206,355 | 236,174 | 136,868 | 111,089 | 343,223 | 347,263 |
| Buildings and improvements | 1,172,116 | 1,114,835 | 7,446,303 | 7,794,498 | 8,618,419 | 8,909,333 |
| Equipment | 201,956 | 232,563 | 1,876,316 | 1,760,549 | 2,078,272 | 1,993,112 |
| Vehicles | 299,010 | 384,526 | 172,320 | 247,878 | 471,330 | 632,404 |
| Infrastructure | <u>2,537,171</u> | <u>2,605,037</u> | <u>34,327,463</u> | <u>34,551,327</u> | <u>36,864,634</u> | <u>37,156,364</u> |
| Totals | <u>\$ 6,085,706</u> | <u>\$ 5,491,335</u> | <u>\$ 45,001,134</u> | <u>\$ 45,317,887</u> | <u>\$ 51,086,840</u> | <u>\$ 50,809,222</u> |

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

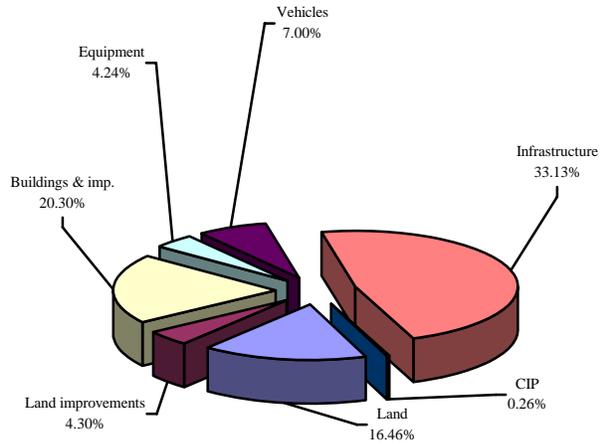
**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Capital Assets - Governmental Activities 2005



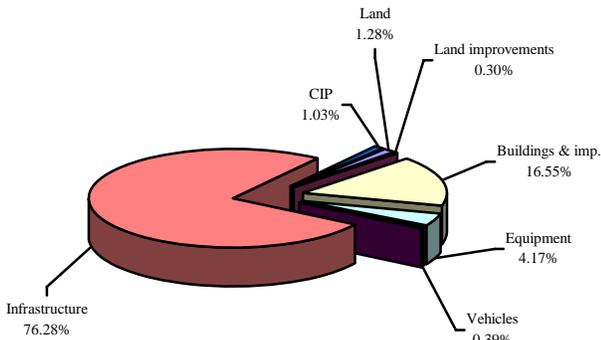
Capital Assets - Governmental Activities 2004



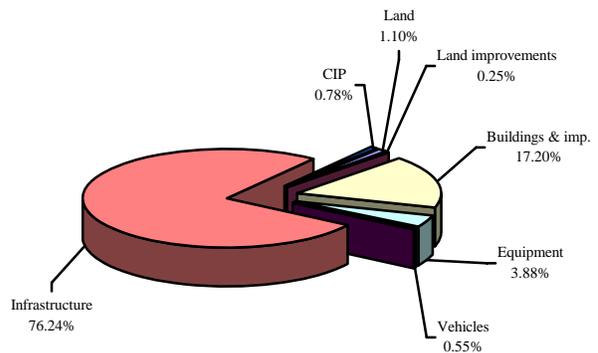
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The City is only reporting current year infrastructure 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 2005 and 2004.

Capital Assets - Business-Type Activities 2005



Capital Assets - Business-Type Activities 2004



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 76.28% of the City's total business-type capital assets.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2005 and 2004:

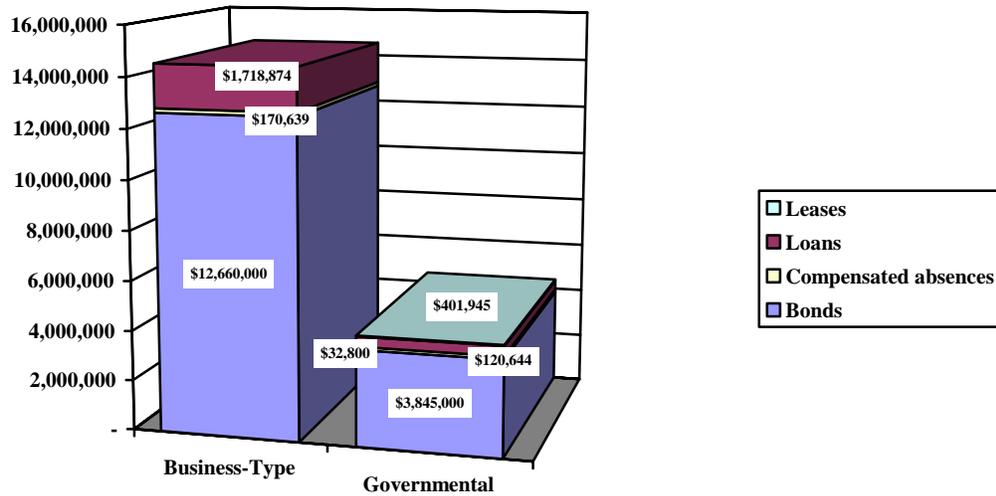
| | Governmental Activities | |
|----------------------------------|---------------------------|---------------|
| | 2005 | 2004 |
| General obligation bonds payable | \$ 3,845,000 | \$ 4,130,000 |
| Compensated absences | 120,644 | 101,440 |
| Capital lease obligation payable | 32,800 | 57,458 |
| Fire rescue truck loan | 324,288 | |
| Police Pension liability | 77,657 | 78,962 |
| Total long-term obligations | \$ 4,400,389 | \$ 4,367,860 |
| | Business-types Activities | |
| | 2005 | 2004 |
| Revenue bonds | \$ 2,865,000 | \$ 3,100,000 |
| General obligation bonds | 9,795,000 | 10,330,000 |
| Bond issuance cost | (367,946) | (409,212) |
| Total bonds | 12,292,054 | 13,020,788 |
| OWDA Loans | 1,718,874 | 1,799,851 |
| Compensated absences | 170,639 | 125,170 |
| Total long-term obligations | \$ 14,181,567 | \$ 14,945,809 |

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 YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Long-term obligations



Economic Conditions and Outlook

The City of Clyde has been very fortunate in that our local economy is still going strong, compared to other municipalities in northwest Ohio. The vast majority of jobs in the City are in manufacturing, and fortunately, the manufacturing base continues to show strength. Recent investments during 2005 in Clyde facilities include a new manufacturing plant, Fisher & Paykel, who moved their factory all the way across the globe from New Zealand. They are leasing the KMH-7 building on Watertower Drive and have started production of electric motors and their own brand of Clothes Washing Machines, and their initial plan called for the hiring of 118 employees. While the New Year's Ball was dropping at Times Square at the beginning of 2005, K & W Distributing was moving their operations from Fremont, Ohio to Clyde. K & W is a wholesale supplier of pet foods and pet related supplies, and they have brought 55 new employees to Clyde. They purchased a new 91,000 square foot building on Northwest Drive and within a week, started operations at their new location. Another new commercial enterprise in 2005 is Universal Equipment & Rental on West McPherson Highway which is a \$450,000 personal storage rental unit business. The City's largest employer, the Whirlpool Corporation, continues to be recognized as a strong employer providing community growth and producing a quality product. During 2005, the City of Clyde constructed a new intersection half-way between North Woodland Avenue and County Road 236. City Manager, Dan Weaver, worked diligently with Whirlpool Corporate Headquarters to solicit state grant money for this intersection and a safety road into the Distribution Center known as Whirlpool Way. The purpose of this intersection was to provide a more safe access to the Whirlpool Regional Distribution Center. The old entrance across from Wendy's Restaurant made it difficult at times to safely exit Wendy's or the Distribution Center. The new intersection will also provide access to future commercial sites along the north side of the highway for anticipated future growth.

Growth in the retail sector also continues at a steady pace. There is a new Dollar General Store on East McPherson Highway, and a new pizza restaurant, Weezie & Emerson Pizza, located on North Main Street behind the Subway restaurant. Also, Dendinger's Auto Repair opened their doors in 2005 on West McPherson Highway.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Residential development is also continuing at a pretty brisk pace. In 2005 there were two duplex condos, one triplex condo and one single unit condos built. Also, there were permits issued for 16 new single family homes including six in Camelot Estates, five in the Norwest Meadows subdivision and three on Lynber Lane.

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 between 2000 and 2002 were flat, at about \$3 million per year, but increased 4.0 percent in 2003, 3.0 percent in 2004 and a whopping 10.00 percent in 2005. We are very pleased to report that the voters of Clyde, at the election held May 2, 2006, renewed the City's income tax for another five years running from 2007 to 2011.

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, to \$0.8 million in 2004, representing 20 percent of annual expenditures. This 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. At the end of 2005 our General Fund balance had climbed a bit to \$0.9 million, representing 20 percent of annual expenditures.

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 Ms. Christine May, Finance Director, City of Clyde, 222 N. Main Street, Clyde, Ohio 43410-1637.

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

| | Governmenta Activities | Business- Activities | Total |
|--|-----------------------------------|---------------------------------|---------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents. | \$ 1,854,851 | \$ 9,396,353 | \$ 11,251,204 |
| Receivables (net of allowances for uncollectibles): | | | |
| Income taxes | 991,411 | | 991,411 |
| Real and other taxes | 437,920 | 69,019 | 506,939 |
| Accounts | 48,931 | 1,544,072 | 1,593,003 |
| Special assessments | 270,481 | | 270,481 |
| Accrued interest | 73,549 | | 73,549 |
| Internal balances | (11,193) | 11,193 | |
| Due from other governments. | 311,463 | 7,500 | 318,963 |
| Materials and supplies inventory. | 19,685 | 290,548 | 310,233 |
| Unamortized bond issue costs | | 296,983 | 296,983 |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents | | 1,478,425 | 1,478,425 |
| Capital assets: | | | |
| Land and construction-in-progress | 1,669,098 | 1,041,864 | 2,710,962 |
| Depreciable capital assets, net | 4,416,608 | 43,959,270 | 48,375,878 |
| Total capital assets, net | 6,085,706 | 45,001,134 | 51,086,840 |
| Total assets. | 10,082,804 | 58,095,227 | 68,178,031 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS (CONTINUED)
DECEMBER 31, 2005**

| | Governmenta Activities | Business- Activities | Total |
|---|-----------------------------------|---------------------------------|----------------------|
| Liabilities: | | | |
| Accounts payable | \$ 169,906 | \$ 83,537 | \$ 253,443 |
| Accrued wages and benefits | 129,931 | 98,562 | 228,493 |
| Pension obligation payable | 52,530 | 49,202 | 101,732 |
| Deferred revenue | 449,372 | | 449,372 |
| Due to other governments | 1,170 | 76,225 | 77,395 |
| Accrued interest payable | 14,331 | 143,342 | 157,673 |
| Long-term liabilities: | | | |
| Due within one year | 382,960 | 910,713 | 1,293,673 |
| Due in more than one year | 4,017,429 | 13,270,854 | 17,288,283 |
| Total liabilities | 5,217,629 | 14,632,435 | 19,850,064 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 1,883,618 | 30,990,206 | 32,873,824 |
| Restricted for: | | | |
| Capital projects | 545,840 | | 545,840 |
| Debt service | 5,425 | 1,478,425 | 1,483,850 |
| Transportation | 425,664 | | 425,664 |
| Security of persons and property | 66,937 | | 66,937 |
| Other purposes | 98,169 | | 98,169 |
| Unrestricted | 1,839,522 | 10,994,161 | 12,833,683 |
| Total net assets | \$ 4,865,175 | \$ 43,462,792 | \$ 48,327,967 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>Program Revenues</u> | | | |
|---|-------------------------|---------------------------------|--|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Governmental Activities: | | | | |
| General government | \$ 856,538 | \$ 14,645 | | \$ 397,190 |
| Security of persons and property. | 1,971,347 | 103,982 | \$ 3,005 | |
| Public health and welfare | 449,428 | 4,165 | 58,309 | |
| Transportation | 588,662 | 245 | 300,711 | 33,597 |
| Community environment. | 677,767 | 35,363 | | |
| Leisure time activity. | 138,504 | 35,551 | 488 | |
| Other | 60,656 | | | |
| Interest and fiscal charges. | 187,292 | | | |
| Total governmental activities | <u>4,930,194</u> | <u>193,951</u> | <u>362,513</u> | <u>430,787</u> |
| Business-type Activities: | | | | |
| Water | 2,315,226 | 2,218,430 | | |
| Sewer | 2,144,824 | 1,558,791 | | |
| Electric | 7,329,708 | 9,305,559 | | |
| Total business-type activities | <u>11,789,758</u> | <u>13,082,780</u> | | |
| Total primary government | <u>\$ 16,719,952</u> | <u>\$ 13,276,731</u> | <u>\$ 362,513</u> | <u>\$ 430,787</u> |

General Revenues:

| | |
|---|--|
| Property taxes levied for: | |
| General purposes. | |
| Police and fire pension. | |
| Income taxes levied for: | |
| General purposes. | |
| Capital projects | |
| Grants and entitlements not restricted to specific programs | |
| Investment earnings | |
| Miscellaneous | |
| Total general revenues | |
| Transfers. | |
| Change in net assets. | |
| Net assets at beginning of year (restated) | |
| Net assets at end of year | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

| Governmental Activities | Business-type Activities | Total |
|------------------------------------|-------------------------------------|----------------------|
| \$ (444,703) | | \$ (444,703) |
| (1,864,360) | | (1,864,360) |
| (386,954) | | (386,954) |
| (254,109) | | (254,109) |
| (642,404) | | (642,404) |
| (102,465) | | (102,465) |
| (60,656) | | (60,656) |
| (187,292) | | (187,292) |
| <u>(3,942,943)</u> | | <u>(3,942,943)</u> |
| | \$ (96,796) | (96,796) |
| | (586,033) | (586,033) |
| | 1,975,851 | 1,975,851 |
| | <u>1,293,022</u> | <u>1,293,022</u> |
| <u>(3,942,943)</u> | <u>1,293,022</u> | <u>(2,649,921)</u> |
| 709,929 | | 709,929 |
| 34,274 | | 34,274 |
| 2,543,449 | | 2,543,449 |
| 992,022 | | 992,022 |
| 497,447 | | 497,447 |
| 310,020 | 33,510 | 343,530 |
| 97,388 | | 97,388 |
| <u>5,184,529</u> | <u>33,510</u> | <u>5,218,039</u> |
| <u>(422,813)</u> | <u>422,813</u> | |
| 818,773 | 1,749,345 | 2,568,118 |
| <u>4,046,402</u> | <u>41,713,447</u> | <u>45,759,849</u> |
| <u>\$ 4,865,175</u> | <u>\$ 43,462,792</u> | <u>\$ 48,327,967</u> |

**CITY OF CLYDE
SANDUSKY COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------------|----------------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 983,109 | \$ 242,905 | \$ 496,262 | \$ 1,722,276 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Income taxes | 693,988 | 297,423 | | 991,411 |
| Real and other taxes | 396,865 | | 41,055 | 437,920 |
| Accounts | 47,778 | | 1,153 | 48,931 |
| Special assessments | 68,029 | 202,452 | | 270,481 |
| Accrued interest | 70,527 | | 2,882 | 73,409 |
| Due from other funds | 68,794 | | | 68,794 |
| Due from other governments | 115,778 | 77,911 | 117,774 | 311,463 |
| Materials and supplies inventory | 5,642 | | | 5,642 |
| Total assets | <u>\$ 2,450,510</u> | <u>\$ 820,691</u> | <u>\$ 659,126</u> | <u>\$ 3,930,327</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 25,643 | \$ 125,202 | \$ 4,259 | \$ 155,104 |
| Accrued wages and benefits | 112,268 | | 2,442 | 114,710 |
| Pension obligation payable | 44,885 | | 830 | 45,715 |
| Due to other governments | 1,170 | | | 1,170 |
| Loans from other funds | | 77,525 | | 77,525 |
| Deferred revenue | 676,295 | 246,356 | 113,726 | 1,036,377 |
| Total liabilities | <u>860,261</u> | <u>449,083</u> | <u>121,257</u> | <u>1,430,601</u> |
| Fund balances: | | | | |
| Reserved for encumbrances | 144,726 | | 11,383 | 156,109 |
| Reserved for materials and supplies inventory | 5,642 | | | 5,642 |
| Reserved for Advances | | 77,525 | | 77,525 |
| Unreserved, undesignated, reported in: | | | | |
| General fund | 1,439,881 | | | 1,439,881 |
| Special revenue funds | | | 496,763 | 496,763 |
| Capital projects funds | | 294,083 | 24,298 | 318,381 |
| Debt service funds | | | 5,425 | 5,425 |
| Total fund balances | <u>1,590,249</u> | <u>371,608</u> | <u>537,869</u> | <u>2,499,726</u> |
| Total liabilities and fund balances | <u>\$ 2,450,510</u> | <u>\$ 820,691</u> | <u>\$ 659,126</u> | <u>\$ 3,930,327</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, 2005**

| | | |
|--|------------------|-----------------------------------|
| Total governmental fund balances | | \$ 2,499,726 |
| <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. | | 5,785,223 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | |
| Property taxes | \$ 74,198 | |
| Income taxes | 146,348 | |
| Special assessments | 184,831 | |
| Intergovernmental revenues | 122,525 | |
| Interest | <u>59,103</u> | |
| Total | | 587,005 |
| 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 (including internal balances of \$2,462) are included in governmental activities in the statement of net assets. | | 403,576 |
| In the statement of activities interest is accrued on outstanding bonds and loans payable, whereas in governmental funds, interest expenditures are reported when due. | | (14,331) |
| 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 | (3,845,000) | |
| Police pension liability | (77,657) | |
| Capital lease payable | (32,800) | |
| Fire rescue truck loan payable | (324,288) | |
| Compensated absences | <u>(116,279)</u> | |
| Total | | <u>(4,396,024)</u> |
| Net assets of governmental activities | | <u><u>\$ 4,865,175</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, 2005**

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------------|---|---|
| Revenues: | | | | |
| Income taxes | \$ 2,585,617 | \$ 1,010,095 | | \$ 3,595,712 |
| Real and other taxes | 705,214 | | \$ 33,786 | 739,000 |
| Charges for services | 90,604 | | 35,796 | 126,400 |
| Licenses, permits and fees | 4,165 | | | 4,165 |
| Fines and forfeitures | 25,077 | | 3,220 | 28,297 |
| Special assessments | 14,805 | 17,582 | | 32,387 |
| Intergovernmental | 532,485 | 250,000 | 316,437 | 1,098,922 |
| Investment income | 305,534 | | 8,128 | 313,662 |
| Rental income | 12,769 | | | 12,769 |
| Other | 101,397 | 98,190 | 97,245 | 296,832 |
| Total revenues | <u>4,377,667</u> | <u>1,375,867</u> | <u>494,612</u> | <u>6,248,146</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 728,357 | 139,422 | | 867,779 |
| Security of persons and property. | 2,172,138 | | 39,764 | 2,211,902 |
| Public health and welfare | 378,507 | | 25,330 | 403,837 |
| Transportation | | | 229,747 | 229,747 |
| Community environment. | 649,628 | | | 649,628 |
| Leisure time activity | | | 144,644 | 144,644 |
| Other | 65,390 | | | 65,390 |
| Capital outlay. | | 650,444 | 52,916 | 703,360 |
| Debt service: | | | | |
| Principal retirement | 50,370 | | 286,305 | 336,675 |
| Interest and fiscal charges | 10,889 | 2,751 | 174,101 | 187,741 |
| Total expenditures | <u>4,055,279</u> | <u>792,617</u> | <u>952,807</u> | <u>5,800,703</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>322,388</u> | <u>583,250</u> | <u>(458,195)</u> | <u>447,443</u> |
| Other financing sources (uses): | | | | |
| Loan issuance | 350,000 | | | 350,000 |
| Transfers in | | 222,862 | 583,587 | 806,449 |
| Transfers out | (548,506) | (517,443) | (142,862) | (1,208,811) |
| Total other financing sources (uses) | <u>(198,506)</u> | <u>(294,581)</u> | <u>440,725</u> | <u>(52,362)</u> |
| Net change in fund balances | 123,882 | 288,669 | (17,470) | 395,081 |
| Fund balances at beginning of year | <u>1,466,367</u> | <u>82,939</u> | <u>555,339</u> | <u>2,104,645</u> |
| Fund balances at end of year | <u>\$ 1,590,249</u> | <u>\$ 371,608</u> | <u>\$ 537,869</u> | <u>\$ 2,499,726</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, 2005**

Net change in fund balances - total governmental funds \$ 395,081

*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 (\$1,207,606) exceeded depreciation expense (\$647,934) in the current period. Both amounts are exclusive of internal service funds activity. 559,672

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (20,137)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (105,786)

Repayment of bonds, loans and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 336,675

Proceeds of loans are reported as an other financing source in the governmental funds, but they increase liabilities on the statement of net assets. (350,000)

In the statement of activities, interest is accrued on outstanding bonds and loans payable, whereas in governmental funds, an interest expenditure is reported when due. 449

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. (17,532)

The internal service funds used by management to charge the costs of insurance and the City service department 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 service funds, including internal balances of \$2,805, is allocated among the governmental activities. 20,351

Change in net assets of governmental activities \$ 818,773

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)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------|------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Income taxes | \$ 1,970,073 | \$ 2,363,503 | \$ 2,587,772 | \$ 224,269 |
| Real and other taxes | 248,758 | 298,436 | 326,754 | 28,318 |
| Charges for services | 279,412 | 335,211 | 367,018 | 31,807 |
| Licenses, permits and fees | 3,171 | 3,804 | 4,165 | 361 |
| Fines and forfeitures | 17,991 | 21,584 | 23,632 | 2,048 |
| Intergovernmental | 381,961 | 458,240 | 501,721 | 43,481 |
| Special assessments | 11,271 | 13,522 | 14,805 | 1,283 |
| Investment income | 245,764 | 294,844 | 322,821 | 27,977 |
| Rental income | 10,368 | 12,439 | 13,619 | 1,180 |
| Other | 78,115 | 93,153 | 113,578 | 20,425 |
| Total revenues | <u>3,246,884</u> | <u>3,894,736</u> | <u>4,275,885</u> | <u>381,149</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 910,998 | 1,112,661 | 1,042,268 | 70,393 |
| Security of persons and property | 2,005,095 | 2,448,954 | 2,294,017 | 154,937 |
| Public health and welfare | 334,311 | 408,316 | 382,483 | 25,833 |
| Community environment | 572,458 | 699,180 | 654,945 | 44,235 |
| Other | 55,356 | 67,610 | 63,333 | 4,277 |
| Total expenditures | <u>3,878,218</u> | <u>4,736,721</u> | <u>4,437,046</u> | <u>299,675</u> |
| Excess of revenues over (under) expenditures | <u>(631,334)</u> | <u>(841,985)</u> | <u>(161,161)</u> | <u>680,824</u> |
| Other financing sources (uses): | | | | |
| Sale of capital assets | 274 | 329 | 359 | 30 |
| Loan issuance | 266,456 | 319,668 | 350,000 | 30,332 |
| Transfers in | 314,041 | 376,756 | 412,506 | 35,750 |
| Transfers out | (517,883) | (632,524) | (592,506) | 40,018 |
| Other financing uses | (4,770) | (5,826) | (5,457) | 369 |
| Total other financing sources (uses) | <u>58,118</u> | <u>58,403</u> | <u>164,902</u> | <u>106,499</u> |
| Net change in fund balance | (573,216) | (783,582) | 3,741 | 787,323 |
| Fund balance at beginning of year | 723,052 | 723,052 | 723,052 | |
| Prior year encumbrances appropriated | <u>107,758</u> | <u>107,758</u> | <u>107,758</u> | |
| Fund balance at end of year | <u>\$ 257,594</u> | <u>\$ 47,228</u> | <u>\$ 834,551</u> | <u>\$ 787,323</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005**

| | <u>Business-type Activities - Enterprise Funds</u> | | | | <u>Governmental</u> |
|--|--|----------------------|----------------------|----------------------|-----------------------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Electric</u> | <u>Total</u> | <u>Internal Service Funds</u> |
| Assets: | | | | | |
| Current assets: | | | | | |
| Equity in pooled cash and cash equivalents | \$ 1,634,365 | \$ 1,507,097 | \$ 6,254,891 | \$ 9,396,353 | \$ 132,575 |
| Receivables (net of allowance for uncollectibles): | | | | | |
| Excise taxes | | | 69,019 | 69,019 | |
| Accounts | 242,255 | 177,918 | 1,123,899 | 1,544,072 | |
| Accrued interest | | | | | 140 |
| Due from other governments | | 7,500 | | 7,500 | |
| Materials and supplies inventory | 23,367 | 12,410 | 254,771 | 290,548 | 14,043 |
| Unamortized bond issuance costs | 40,809 | | 256,174 | 296,983 | |
| Total current assets | 1,940,796 | 1,704,925 | 7,958,754 | 11,604,475 | 146,758 |
| Noncurrent assets: | | | | | |
| Restricted: | | | | | |
| Cash and cash equivalents | 737,684 | | 740,741 | 1,478,425 | |
| Loans to other funds | | | 77,525 | 77,525 | |
| Capital assets: | | | | | |
| Land and construction-in-progress | 570,598 | 122,161 | 349,105 | 1,041,864 | |
| Depreciable capital assets, net | 16,136,793 | 17,932,301 | 9,890,176 | 43,959,270 | 300,483 |
| Total capital assets | 16,707,391 | 18,054,462 | 10,239,281 | 45,001,134 | 300,483 |
| Total noncurrent assets | 17,445,075 | 18,054,462 | 11,057,547 | 46,557,084 | 300,483 |
| Total assets | 19,385,871 | 19,759,387 | 19,016,301 | 58,161,559 | 447,241 |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 30,601 | 28,887 | 24,049 | 83,537 | 14,802 |
| Accrued wages and benefits | 35,968 | 36,454 | 26,140 | 98,562 | 15,221 |
| Pension obligation payable | 18,709 | 17,124 | 13,369 | 49,202 | 6,815 |
| Due to other funds | | | 68,794 | 68,794 | |
| Due to other governments | 76,000 | | 225 | 76,225 | |
| Accrued interest payable | 103,025 | 9,954 | 30,363 | 143,342 | |
| Compensated absences | 18,259 | 8,944 | 5,505 | 32,708 | 4,031 |
| Payable from restricted assets: | | | | | |
| Current portion of revenue bonds | | | 250,000 | 250,000 | |
| Current portion of general obligation bonds | 200,000 | | 345,000 | 545,000 | |
| Current portion of OWDA loans payable | 61,373 | 21,632 | | 83,005 | |
| Total current liabilities | 543,935 | 122,995 | 763,445 | 1,430,375 | 40,869 |
| Long-term liabilities: | | | | | |
| Compensated absences | 55,873 | 67,903 | 14,155 | 137,931 | 334 |
| Revenue bonds payable | | | 2,615,000 | 2,615,000 | |
| General obligation bonds payable | 6,045,000 | | 2,837,054 | 8,882,054 | |
| OWDA loans payable | 1,167,849 | 468,020 | | 1,635,869 | |
| Total long-term liabilities | 7,268,722 | 535,923 | 5,466,209 | 13,270,854 | 334 |
| Total liabilities | 7,812,657 | 658,918 | 6,229,654 | 14,701,229 | 41,203 |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | 9,233,169 | 17,564,810 | 4,192,227 | 30,990,206 | 300,483 |
| Restricted for debt service | 737,684 | | 740,741 | 1,478,425 | |
| Unrestricted | 1,602,361 | 1,535,659 | 7,853,679 | 10,991,699 | 105,555 |
| Total net assets | \$ 11,573,214 | \$ 19,100,469 | \$ 12,786,647 | 43,460,330 | \$ 406,038 |
| Adjustment to reflect the consolidation of the internal service funds activities related to Net assets of business-type | | | | 2,462 | |
| | | | | <u>\$ 43,462,792</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, 2005**

| | <u>Business-type Activities -</u> | | | | Governmental Activities - Internal Service Funds |
|--|-----------------------------------|----------------------------|----------------------------|----------------------------|---|
| | <u>Water</u> | <u>Sewer</u> | <u>Electric</u> | <u>Total</u> | |
| Operating revenues: | | | | | |
| Charges for services | \$ 2,213,497 | \$ 1,555,057 | \$ 9,300,915 | \$13,069,469 | \$ 700,616 |
| Other operating revenues | 4,933 | 3,734 | 4,644 | 13,311 | |
| Total operating revenues | <u>2,218,430</u> | <u>1,558,791</u> | <u>9,305,559</u> | <u>13,082,780</u> | <u>700,616</u> |
| Operating expenses: | | | | | |
| Personal services | 996,423 | 929,099 | 840,492 | 2,766,014 | 460,734 |
| Contract services | 226,480 | 430,152 | 5,770,859 | 6,427,491 | 59,308 |
| Materials and supplies | 223,739 | 282,488 | 84,325 | 590,552 | 115,758 |
| Depreciation | 533,605 | 482,126 | 226,014 | 1,241,745 | 42,217 |
| Other operating expenses | 2,117 | 1,664 | | 3,781 | |
| Total operating expenses. | <u>1,982,364</u> | <u>2,125,529</u> | <u>6,921,690</u> | <u>11,029,583</u> | <u>678,017</u> |
| Operating income (loss) | <u>236,066</u> | <u>(566,738)</u> | <u>2,383,869</u> | <u>2,053,197</u> | <u>22,599</u> |
| Nonoperating revenues (expenses): | | | | | |
| Interest expense and fiscal charges | (332,399) | (19,707) | (381,228) | (733,334) | |
| Loss from disposal of capital assets | | | (28,217) | (28,217) | |
| Interest revenue. | 12,650 | | 20,860 | 33,510 | 557 |
| Excise tax expense | | | (1,429) | (1,429) | |
| Total nonoperating revenues (expenses) | <u>(319,749)</u> | <u>(19,707)</u> | <u>(390,014)</u> | <u>(729,470)</u> | <u>557</u> |
| Income (loss) before contributions and | (83,683) | (586,445) | 1,993,855 | 1,323,727 | 23,156 |
| Capital contributions | 20,451 | | | 20,451 | |
| Transfers in | | | 402,362 | 402,362 | |
| Changes in net assets | (63,232) | (586,445) | 2,396,217 | 1,746,540 | 23,156 |
| Net assets at beginning of year (restated) | <u>11,636,446</u> | <u>19,686,914</u> | <u>10,390,430</u> | | <u>382,882</u> |
| Net assets at end of year | <u><u>\$11,573,214</u></u> | <u><u>\$19,100,469</u></u> | <u><u>\$12,786,647</u></u> | | <u><u>\$ 406,038</u></u> |
| Adjustment to reflect the consolidation of the internal service funds activities | | | | 2,805 | |
| Changes in net assets of | | | | <u><u>\$ 1,749,345</u></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, 2005**

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities - Internal |
|--|--|----------------------------|----------------------------|-----------------------------|---|
| | Water | Sewer | Electric | Total | Service Funds |
| Cash flows from operating activities: | | | | | |
| Cash received from charges for services | \$ 2,193,811 | \$ 1,527,311 | \$ 9,344,034 | \$ 13,065,156 | \$ 746,082 |
| Cash received from other operations. | 4,933 | 3,734 | 4,644 | 13,311 | |
| Cash payments for personal services | (963,875) | (894,507) | (819,848) | (2,678,230) | (454,233) |
| Cash payments for contract services. | (260,354) | (427,028) | (5,785,528) | (6,472,910) | (58,843) |
| Cash payments for materials and supplies. | (222,806) | (315,418) | (156,024) | (694,248) | (108,039) |
| Cash payments for other expenses. | (2,117) | (1,664) | | (3,781) | |
| Net cash provided by (used in) operating activities. | <u>749,592</u> | <u>(107,572)</u> | <u>2,587,278</u> | <u>3,229,298</u> | <u>124,967</u> |
| Cash flows from noncapital financing activities: | | | | | |
| Cash received from grants and subsidies | | 67,500 | | 67,500 | |
| Cash payments for excise taxes | | | (1,429) | (1,429) | |
| Cash received from internal loans | | | 14,177 | 14,177 | |
| Transfers in from other funds | | | 402,362 | 402,362 | |
| Net cash provided by noncapital financing activities | | <u>67,500</u> | <u>415,110</u> | <u>482,610</u> | |
| Cash flows from capital and related financing activities: | | | | | |
| Acquisition of capital assets | (272,043) | (84,992) | (477,314) | (834,349) | (97,053) |
| Cash payments for principal retirement. | (255,164) | (20,813) | (575,000) | (850,977) | |
| Cash payments for interest and fiscal charges | (334,374) | (19,707) | (317,952) | (672,033) | |
| Net cash used in capital and related financing activities | <u>(861,581)</u> | <u>(125,512)</u> | <u>(1,370,266)</u> | <u>(2,357,359)</u> | <u>(97,053)</u> |
| Cash flows from investing activities: | | | | | |
| Interest received. | 12,650 | | 20,860 | 33,510 | 590 |
| Net cash provided by investing activities | <u>12,650</u> | | <u>20,860</u> | <u>33,510</u> | <u>590</u> |
| Net increase (decrease) in cash and cash equivalents | (99,339) | (165,584) | 1,652,982 | 1,388,059 | 28,504 |
| Cash and cash equivalents at beginning of year | <u>2,471,388</u> | <u>1,672,681</u> | <u>5,342,650</u> | <u>9,486,719</u> | <u>104,071</u> |
| Cash and cash equivalents at end of year. | <u><u>\$ 2,372,049</u></u> | <u><u>\$ 1,507,097</u></u> | <u><u>\$ 6,995,632</u></u> | <u><u>\$ 10,874,778</u></u> | <u><u>\$ 132,575</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Operating income (loss) | \$ 236,066 | \$ (566,738) | \$ 2,383,869 | \$ 2,053,197 | \$ 22,599 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation | 533,605 | 482,126 | 226,014 | 1,241,745 | 42,217 |
| Changes in assets and liabilities: | | | | | |
| (Increase) decrease in accounts receivable | (19,686) | (27,746) | 43,119 | (4,313) | |
| (Increase) decrease in materials and supplies inventory. | 3,132 | (2,904) | (33,172) | (32,944) | 215 |
| Increase in due from other funds | | | | | 45,466 |
| Increase (decrease) in accounts payable | (28,632) | (13,677) | (33,135) | (75,444) | 7,702 |
| Increase in accrued wages and benefits | 9,775 | 12,429 | 7,636 | 29,840 | 3,952 |
| Increase in compensated absences payable | 18,296 | 17,806 | 9,367 | 45,469 | 1,672 |
| Increase in pension obligation payable | 5,060 | 4,357 | 3,641 | 13,058 | 1,144 |
| Increase (decrease) in due to other governments | | (5,200) | 14 | (5,186) | |
| Decrease in due to other funds | (8,024) | (8,025) | (20,075) | (36,124) | |
| Net cash provided by (used in) operating activities | <u><u>\$ 749,592</u></u> | <u><u>\$ (107,572)</u></u> | <u><u>\$ 2,587,278</u></u> | <u><u>\$ 3,229,298</u></u> | <u><u>\$ 124,967</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2005**

| | <u>Private-Purpose Trust</u> |
|---|----------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 6,477 |
| Total assets | <u>6,477</u> |
| Net Assets: | |
| Held in trust for private cemetery care | <u>6,477</u> |
| Total net assets | <u><u>\$ 6,477</u></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, 2005**

| | Private-Purpose Trust |
|---|----------------------------------|
| Additions: | |
| Interest | \$ 56 |
| Total additions. | 56 |
| Deductions: | |
| Cemetery care | \$ 44 |
| Total deductions | 44 |
| Changes in net assets. | 12 |
| Net assets at the beginning of the year. | 6,465 |
| Net assets at the end of the year | \$ 6,477 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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 (BFS) 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 BFS 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.

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

JOINT 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.

PUBLIC ENTITY RISK POOLS

Buckeye Ohio Risk Management Agency (BORMA) - The Buckeye Ohio Risk Management Agency (BORMA) is a public entity shared risk pool among several cities in Northern Ohio. BORMA was formed as an Ohio not-for-profit corporation and operates a health insurance program and a property, crime and liability insurance program. Each member appoints one person to represent the City on the Board of Directors for a term of one year for participation in health insurance program and three years participation in the property, crime and liability insurance program. Each member city's control over the budgeting and financing of BORMA is unlimited to its voting authority and any representation it may have on the Board of Directors.

Participation in BORMA is by written application subject to approval of the Board of Directors and the payment of premiums. Member cities must remain members for cycles of three years. A member may withdraw from a program by giving a forty day notice prior to the beginning of the next cycle. BORMA does not have any outstanding debt obligations as of December 31, 2005. Financial information may be obtained from Arthur J. Gallagher & Co., Crown Centre Building, 5505 Rockside Road, 10th Floor, Cleveland, Ohio 44131-2157.

North Central Ohio Municipal Finance Officer's Association Workers' Compensation Group Rating Plan - The City participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan was established through the North Central Ohio Municipal Finance Officers' Association (NCOMFOA) as an insurance purchasing pool. Larry Rush serves as coordinator of the NCOMFOA. Each year, the participating members pay an enrollment fee to the NCOMFOA to cover the costs of administering the program.

B. Basis of Presentation - Fund Accounting

The City's BFS 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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 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, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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.

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 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 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 of 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 (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

CITY OF CLYDE
SANDUSKY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, 2005, but which were levied to finance year 2006 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.

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. All funds other than agency are legally required to be budgeted and appropriated. 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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 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 estimates need to be either increased or decreased. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the City Council.

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, object, and department 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 reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the City Council during the year.

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. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents".

During 2005, 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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2005. 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, 2005.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2005 amounted to \$305,534, which included \$280,088 assigned from other funds of the City.

For purposes of presentation on the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with an original maturity of three months or less 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. Inventories are accounted for using the consumption method.

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.

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.

Certain resources set aside for the repayment of certain debt issues are classified as restricted assets on the financial statements because their use is limited by applicable bond covenants.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 maintains a capitalization threshold of \$5,000. 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:

| <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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

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, 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." On the fund financial statements, the long-term loan between governmental and business-type funds is classified as "loans to/from other funds."

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 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 BFS.

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 encumbrance's outstanding, advances, materials and supplies inventory in the governmental fund financial statements.

P. Estimates

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS 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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 Council or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources first 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 year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Net Assets

The City has presented a prior period adjustment to net assets of the business-type activities and the electric enterprise fund to correct an overstatement in the amount of unamortized deferred charges reported on electric bond refunding. Prior period adjustment had the following effect on net assets previously reported at December 31, 2004:

| | Electric | Business-Type Activities |
|--|---------------|-----------------------------|
| Net Assets, December 31, 2004 | \$ 11,079,219 | \$ 42,402,236 |
| Correction of unamortized deferred charges | (688,789) | (688,789) |
| Restated net assets, December 31, 2004 | \$ 10,390,430 | \$ 41,713,447 |

B. Change in Accounting Principles

For fiscal year 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 4.

C. Noncompliance

During the year ended December 31, 2005, the City did not certify the availability of funds prior to a commitment being incurred.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the City Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

Interim monies to be deposited or invested in the following securities:

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

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the City had \$390 in undeposited cash on hand which is included on the financial statements of the City as part of "Equity in Pooled Cash and Cash Equivalents."

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

B. Deposits with Financial Institutions

At December 31, 2005, the carrying amount of all City deposits was \$10,150,601. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$9,930,669 of the City's bank balance of \$10,330,669 was exposed to custodial risk as discussed below, while \$400,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

C. Investments

As of December 31, 2005, the City had the following investments and maturities:

| <u>Investment type</u> | <u>Balance at Fair Value</u> | <u>Investment Securitie 6 months or less</u> |
|--|----------------------------------|--|
| FHLB | \$ 676,648 | \$ 676,648 |
| STAR Ohio | 725,189 | 725,189 |
| U.S. Government Money Market Mutual Funds | <u>1,183,278</u> | <u>1,183,278</u> |
| | <u>\$ 2,585,115</u> | <u>\$ 2,585,115</u> |

The weighted average maturity of investments is 0.06 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the City's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The City's investments and FHLB and U.S. Government Money Market Mutual Funds, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2005:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|---|---------------------|-------------------|
| FHLB | \$ 676,648 | 26.17% |
| STAR Ohio | 725,189 | 28.05% |
| U.S. Government Money Market Mutual Funds | <u>1,183,278</u> | <u>45.78%</u> |
| | <u>\$ 2,585,115</u> | <u>100.00%</u> |

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2005:

| | |
|---|----------------------|
| <u>Cash and Investments per footnote</u> | |
| Carrying amount of deposits | \$ 10,150,601 |
| Investments | 2,585,115 |
| Cash on hand | <u>390</u> |
| Total | <u>\$ 12,736,106</u> |
| <u>Cash and Investments per Statement of Net Assets</u> | |
| Governmental activities | \$ 1,854,851 |
| Business-type activities | 10,874,778 |
| Private-purpose trust funds | <u>6,477</u> |
| Total | <u>\$ 12,736,106</u> |

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported on the fund financial statements:

| | | |
|--|----|----------------------------|
| Transfers to Permanent Improvement From: | | |
| General Fund | \$ | 80,000 |
| Nonmajor Governmental Funds | | <u>142,862</u> |
| Total Transfers to Permanent Improvement Funds | | <u>222,862</u> |
| Transfers to Nonmajor Governmental Funds from: | | |
| General Fund | | 100,000 |
| Permanent Improvement | | <u>483,587</u> |
| Total Transfers to Nonmajor Governmental Funds | | <u>583,587</u> |
| Transfers to Electric Fund From: | | |
| Permanent Improvement Fund | | 33,856 |
| General Fund | | <u>368,506</u> |
| Total Transfers to Electric Fund | | <u>402,362</u> |
| Total Transfers | | <u><u>\$ 1,208,811</u></u> |

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.

- B. Due from/to other funds consisted of the following at December 31, 2005, as reported on the fund financial statements:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-------------------------------|---------------------|-------------------------|
| General | Electric Fund | <u>\$ 68,794</u> |
| Total Due To/From Other Funds | | <u><u>\$ 68,794</u></u> |

The balances resulted from the kilowatt hour tax receivable recorded in the Electric Fund which is due to the General Fund.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

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 statute 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. The full tax rate for all City operations for the year ended December 31, 2005, was 3.5 mills of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

| | |
|---|-----------------------|
| Real property tax | \$ 85,238,350 |
| Public utility tangible personal property | 3,175,400 |
| Tangible personal property | <u>32,160,290</u> |
| Total assessed valuation | <u>\$ 120,574,040</u> |

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City during the available period are credited as property tax revenues with the remainder being credited to deferred revenue.

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

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 7 - LOCAL INCOME TAX

The 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% to General and 45% to Permanent Improvement. The additional one-half percent tax is placed in the General fund for municipal operations. Income tax revenue for 2005 was \$3,595,712 as reported in the fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2005, 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 BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2005, as well as intended to finance fiscal 2005 operations.

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

Governmental Activities:

| | |
|----------------------------|------------|
| Income taxes | \$ 991,411 |
| Real and other taxes | 437,920 |
| Accounts | 48,931 |
| Special assessments | 270,481 |
| Accrued interest | 73,549 |
| Due from other governments | 311,463 |

Business-type Activities:

| | |
|----------------------------|-----------|
| Accounts | 1,544,072 |
| Due from other governments | 7,500 |
| Excise tax | 69,019 |

Receivables have been disaggregated on the face of the BFS. 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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

| <u>Governmental Activities:</u> | <u>Balance</u> 12/31/04 | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> 12/31/05 |
|---|----------------------------|-------------------|--------------------|----------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 903,733 | \$ 49,000 | \$ (20,137) | \$ 932,596 |
| Construction in progress | <u>14,467</u> | <u>736,502</u> | <u>(14,467)</u> | <u>736,502</u> |
| Total capital assets, not being depreciated | <u>918,200</u> | <u>785,502</u> | <u>(34,604)</u> | <u>1,669,098</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 920,327 | | | 920,327 |
| Buildings and improvements | 2,566,717 | 127,515 | | 2,694,232 |
| Equipment | 621,467 | 6,025 | | 627,492 |
| Vehicles | 1,726,316 | 14,500 | | 1,740,816 |
| Infrastructure | <u>2,672,903</u> | <u>385,584</u> | <u>-</u> | <u>3,058,487</u> |
| Total capital assets, being depreciated | <u>8,507,730</u> | <u>533,624</u> | <u>-</u> | <u>9,041,354</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (684,153) | (29,819) | | (713,972) |
| Buildings and improvements | (1,451,882) | (70,234) | | (1,522,116) |
| Equipment | (388,904) | (36,632) | | (425,536) |
| Vehicles | (1,341,790) | (100,016) | | (1,441,806) |
| Infrastructure | <u>(67,866)</u> | <u>(453,450)</u> | <u>-</u> | <u>(521,316)</u> |
| Total accumulated depreciation | <u>(3,934,595)</u> | <u>(690,151)</u> | <u>-</u> | <u>(4,624,746)</u> |
| Total capital assets, being depreciated, net | <u>4,573,135</u> | <u>(156,527)</u> | <u>-</u> | <u>4,416,608</u> |
| Governmental activities capital assets, net | <u>\$ 5,491,335</u> | <u>\$ 628,975</u> | <u>\$ (34,604)</u> | <u>\$ 6,085,706</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 in the 2006 basic financial statements. Only infrastructure capital assets acquired or constructed in 2003 through 2005 are reflected in the basic financial statements for the fiscal year ended December 31, 2005.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 9 - CAPITAL ASSETS - (Continued)

| <u>Business-type Activities:</u> | <u>Balance</u> 12/31/04 | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> 12/31/05 |
|---|----------------------------|--------------------|---------------------|----------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 500,820 | \$ 76,000 | | \$ 576,820 |
| Construction in progress | <u>351,726</u> | <u>465,044</u> | <u>\$ (351,726)</u> | <u>465,044</u> |
| Total capital assets, not being depreciated | <u>852,546</u> | <u>541,044</u> | <u>(351,726)</u> | <u>1,041,864</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 516,321 | 44,044 | | 560,365 |
| Buildings and improvements | 11,603,963 | | | 11,603,963 |
| Equipment | 5,625,212 | 333,264 | (15,039) | 5,943,437 |
| Vehicles | 608,133 | | (32,249) | 575,884 |
| Infrastructure | <u>39,820,296</u> | <u>386,583</u> | <u>-</u> | <u>40,206,879</u> |
| Total capital assets, being depreciated | <u>58,173,925</u> | <u>763,891</u> | <u>(47,288)</u> | <u>58,890,528</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (405,232) | (18,265) | | (423,497) |
| Buildings and improvements | (3,809,465) | (348,195) | | (4,157,660) |
| Equipment | (3,864,663) | (217,497) | 15,039 | (4,067,121) |
| Vehicles | (360,255) | (47,341) | 4,032 | (403,564) |
| Infrastructure | <u>(5,268,969)</u> | <u>(610,447)</u> | <u>-</u> | <u>(5,879,416)</u> |
| Total accumulated depreciation | <u>(13,708,584)</u> | <u>(1,241,745)</u> | <u>19,071</u> | <u>(14,931,258)</u> |
| Total capital assets, being depreciated, net | <u>44,465,341</u> | <u>(477,854)</u> | <u>(28,217)</u> | <u>43,959,270</u> |
| Business-type activities capital assets, net | <u>\$ 45,317,887</u> | <u>\$ 63,190</u> | <u>\$ (379,943)</u> | <u>\$ 45,001,134</u> |

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 9 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

| | |
|--|------------|
| General government | \$ 7,386 |
| Security of persons and property | 113,240 |
| Public health and welfare | 45,671 |
| Transportation | 453,450 |
| Community environment | 28,187 |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | 42,217 |
| Total depreciation expense - governmental activities | \$ 690,151 |

Business-type activities

| | |
|---|--------------|
| Water | \$ 533,605 |
| Sewer | 482,126 |
| Electric | 226,014 |
| Total depreciation expense - business-type activities | \$ 1,241,745 |

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 \$29,945 at December 31, 2005. 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 \$32,657 at December 31, 2005. 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 .0577 for each hour in active pay status, up to one hundred and twenty (120) hours per year. Upon retirement a nonunion employee is paid forty percent of their accumulated sick leave up to a maximum payment equal 130 days or 1,040 hours. Upon retirement a union employee is paid fifty percent of accumulated sick leave up to a maximum of 150 days or 1,200 hours, 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 \$228,681 at December 31, 2005. Amounts are recorded as a fund liability and/or on the government-wide financial statements as applicable.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE

In a prior 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 2005 totaled \$24,658 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, 2005.

| <u>Year Ending December 31,</u> | <u>General</u> |
|---|------------------|
| 2006 | \$ 28,216 |
| 2007 | <u>6,946</u> |
| Total future minimum lease payments | 35,162 |
| Less: amount representing interest | <u>(2,362)</u> |
| Present value of net minimum lease payments | <u>\$ 32,800</u> |

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in the City's governmental long-term obligations:

| Governmental Activities: | <u>Interest Rate</u> | <u>Balance 12/31/04</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance 12/31/05</u> | <u>Amounts Due in One Year</u> |
|--|--------------------------|-----------------------------|-------------------|---------------------|-----------------------------|--|
| <u>General Obligation Debt:</u> | | | | | | |
| Woodland/Premier | | | | | | |
| General Obligation Bonds | 2.0%-4.15% | \$ 815,000 | \$ - | \$ (100,000) | \$ 715,000 | \$ 100,000 |
| Vine/Main Street Improvements | | | | | | |
| General Obligation Bonds | 1.70%-5.0% | <u>3,315,000</u> | <u>-</u> | <u>(185,000)</u> | <u>3,130,000</u> | <u>180,000</u> |
| Total general obligation debt | | <u>\$ 4,130,000</u> | <u>\$ -</u> | <u>\$ (285,000)</u> | <u>\$ 3,845,000</u> | <u>\$ 280,000</u> |
| <u>Other Obligations:</u> | | | | | | |
| Police Pension Liability | | \$ 78,962 | \$ - | \$ (1,305) | \$ 77,657 | \$ 1,361 |
| Fire Rescue Truck Loan | | | 350,000 | (25,712) | 324,288 | 45,495 |
| Capital Lease Obligation | | 57,458 | | (24,658) | 32,800 | 26,210 |
| Compensated Absences | | <u>101,440</u> | <u>48,225</u> | <u>(29,022)</u> | <u>120,644</u> | <u>29,894</u> |
| Total other obligations | | <u>\$ 237,860</u> | <u>\$ 398,225</u> | <u>\$ (80,697)</u> | <u>\$ 555,389</u> | <u>\$ 102,960</u> |
| Total governmental activities long-term obligations | | <u>\$ 4,367,860</u> | <u>\$ 398,225</u> | <u>\$ (365,697)</u> | <u>\$ 4,400,389</u> | <u>\$ 382,960</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, 2005, \$575,000 of this debt was still outstanding.

The annual requirements amortize general long-term obligations outstanding as of December 31, 2005, are as follows:

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS – (Continued)

| Year Ending | Vine/Main Street | | Woodland/Premier | |
|-------------|---------------------|---------------------|-------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$ 180,000 | \$ 136,173 | \$ 100,000 | \$ 26,522 |
| 2007 | 190,000 | 130,502 | 100,000 | 23,522 |
| 2008 | 195,000 | 123,852 | 100,000 | 20,223 |
| 2009 | 205,000 | 116,540 | 100,000 | 16,622 |
| 2010 | 210,000 | 108,442 | 100,000 | 12,822 |
| 2011 - 2015 | 880,000 | 415,532 | 215,000 | 13,596 |
| 2016 - 2020 | 860,000 | 231,167 | | |
| 2021 - 2022 | 410,000 | 31,000 | - | - |
| Total | <u>\$ 3,130,000</u> | <u>\$ 1,293,208</u> | <u>\$ 715,000</u> | <u>\$ 113,307</u> |

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 (a nonmajor governmental fund).

Fire Rescue Truck Loan: During 2005, the City issued a loan for the purchase of a fire rescue truck in the amount of \$350,000. The principal payments are made from the general fund and the loan will mature in 2011.

The annual requirements to amortize police pension obligations and loans outstanding as of December 31, 2005, are as follows:

| Year Ending | Police Pension | | Fire Rescue Truck Loan | |
|-------------|------------------|------------------|------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$ 1,361 | \$ 3,286 | \$ 45,495 | \$ 11,541 |
| 2007 | 1,419 | 3,228 | 47,255 | 9,781 |
| 2008 | 1,480 | 3,167 | 49,059 | 7,977 |
| 2009 | 1,544 | 3,103 | 50,982 | 6,054 |
| 2010 | 1,610 | 3,037 | 52,954 | 4,082 |
| 2011 - 2015 | 9,149 | 14,086 | 78,543 | 2,258 |
| 2016 - 2020 | 11,291 | 11,943 | | |
| 2021 - 2025 | 13,932 | 9,301 | | |
| 2026 - 2030 | 17,191 | 6,041 | | |
| 2031 - 2035 | 18,680 | 2,023 | - | - |
| Total | <u>\$ 77,657</u> | <u>\$ 59,215</u> | <u>\$ 324,288</u> | <u>\$ 41,693</u> |

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS – (Continued)

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.

B. During the fiscal year 2005, the following changes occurred in the City's business-type long-term liabilities:

| Business-Type Activities: | <u>Interest Rate</u> | <u>Balance 12/31/04</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance 12/31/05</u> | <u>Amount Due in One Year</u> |
|---|--------------------------|-----------------------------|------------------|---------------------|-----------------------------|-----------------------------------|
| <u>Mortgage Revenue Bonds</u> | | | | | | |
| Electric System Mortgage Revenue Refunding Bonds, Series 1998 | 4.0%-5.25% | \$ 3,100,000 | \$ - | \$ (235,000) | \$ 2,865,000 | \$ 250,000 |
| Total mortgage revenue bonds | 3.0%-6.3% | 3,100,000 | - | (235,000) | 2,865,000 | 250,000 |
| <u>OWDA Loans</u> | | | | | | |
| Sewer Plant OWDA Loan | 3.90% | 510,465 | | (20,813) | 489,652 | 21,632 |
| Water System OWDA Loan | 2.00% | 1,289,386 | - | (60,164) | 1,229,222 | 61,373 |
| Total OWDA Loans | | 1,799,851 | - | (80,977) | 1,718,874 | 83,005 |
| <u>General Obligation Bonds</u> | | | | | | |
| Water System General Obligation Bonds Series 1997 | 5% | 5,265,000 | | (70,000) | 5,195,000 | 70,000 |
| Water System Improvement Revenue Bonds | 2.1%-4.65% | 1,175,000 | | (125,000) | 1,050,000 | 130,000 |
| Electric System G.O. Refunding Bonds | 2.0%-4.125% | 3,890,000 | - | (340,000) | 3,550,000 | 345,000 |
| Total general obligation bonds | | 10,330,000 | - | (535,000) | 9,795,000 | 545,000 |
| <u>Other Obligations</u> | | | | | | |
| Compensated Absences | | 125,170 | 77,751 | (32,282) | 170,639 | 32,708 |
| Total other obligations | | 125,170 | 77,751 | (32,282) | 170,639 | 32,708 |
| Total business-type activities long-term obligations | | <u>\$ 15,355,021</u> | <u>\$ 77,751</u> | <u>\$ (883,259)</u> | 14,549,513 | <u>\$ 910,713</u> |
| Unamortized deferred charges on refundings | | | | | (385,677) | |
| Unamortized premium on bonds | | | | | 17,731 | |
| | | | | | <u>\$ 14,181,567</u> | |

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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.

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, 2005, \$3,915,000 of this debt was still outstanding.

General Obligation Bonds: During 1997, the City issued general obligation bonds for improvements to the City's water system. The revenues derived from user charges will be used to repay the debt. During prior years the City issued additional general obligation bonds for additional water system improvements. These bonds will be repaid with user charges collected in the water fund. During 2004, the City issued general obligation bonds for electric system improvements. These bonds retired the mortgage revenue bonds outstanding at December 31, 2003, in the amount of \$4,530,000. These general obligation bonds will be repaid with user charges collected in the electric fund.

On May 13, 2004, the City issued \$4,345,000 in electric system refunding bonds to currently refund the callable portion of the 1993 electric system bonds (principal \$4,530,000; interest rate 3.0%-6.30%). The refunded debt is considered defeased (insubstance) and accordingly, has been removed from the statement of net assets. The principal balance of the electric system refunding bonds at December 31, 2005 was \$3,550,000.

The 2004 electric system refunding issue is comprised of current interest bonds, par value \$4,345,000, with an annual interest rate ranging from 2.00% - 4.125%. The reacquisition price exceeded the net carrying amount of the old debt by \$141,091. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to interest expense through the year 2014 using the straight-line method. This current refunding was undertaken to reduce total debt service payments over the next 10 years by 3.59% and resulted in an economic gain of \$368,560.

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, 2005, the City has outstanding borrowings of \$1,718,874.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

The annual requirements to amortize enterprise fund obligations outstanding as of December 31, 2005, are as follows:

| Year Ending | Electric Revenue Bonds | | Electric General Obligation Refunding Bonds | | Water Improvement G.O. Bonds | | OWDA Loan | |
|----------------|------------------------|-------------------|--|-------------------|---------------------------------|---------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| | 2006 | \$ 250,000 | \$ 171,900 | \$ 345,000 | \$ 126,914 | \$ 200,000 | \$ 301,080 | \$ 83,005 |
| 2007 | 265,000 | 156,900 | 355,000 | 118,289 | 205,000 | 292,706 | 85,091 | 41,082 |
| 2008 | 280,000 | 141,000 | 365,000 | 107,639 | 220,000 | 283,613 | 87,235 | 38,937 |
| 2009 | 295,000 | 124,200 | 380,000 | 96,689 | 230,000 | 273,518 | 89,439 | 36,733 |
| 2010 | 315,000 | 106,500 | 390,000 | 83,389 | 240,000 | 262,843 | 91,705 | 34,467 |
| 2011 - 2015 | 1,460,000 | 225,000 | 1,715,000 | 176,671 | 840,000 | 1,164,836 | 494,826 | 136,033 |
| 2016 - 2020 | | | | | 640,000 | 1,008,875 | 561,984 | 68,876 |
| 2021 - 2025 | | | | | 820,000 | 829,125 | 225,589 | 6,495 |
| 2026 - 2030 | | | | | 1,050,000 | 599,375 | | |
| 2031 - 2035 | | | | | 1,335,000 | 306,750 | | |
| 2036 - 2037 | - | - | - | - | 465,000 | 23,250 | - | - |
| Total | <u>\$ 2,865,000</u> | <u>\$ 925,500</u> | <u>\$ 3,550,000</u> | <u>\$ 709,591</u> | <u>\$ 6,245,000</u> | <u>\$ 5,345,971</u> | <u>\$ 1,718,874</u> | <u>\$ 405,790</u> |

C. Legal Debt Margin

The City's voted and unvoted legal debt margins were \$8,820,699 and \$2,791,997, respectively, at December 31, 2005.

NOTE 13 - LOANS TO/FROM OTHER FUNDS

The City had the following interfund loan in the Permanent Improvement fund for fiscal year 2005:

| | Interest Rate | Issue Date | Balance 12/31/04 | Additions | Retirements | Balance 12/31/05 |
|------------------|------------------|---------------|---------------------|-------------|--------------------|---------------------|
| Land Acquisition | 3.00% | 8/1/00 | <u>\$ 91,702</u> | <u>\$ -</u> | <u>\$ (14,177)</u> | <u>\$ 77,525</u> |

The interfund loan outstanding at December 31, 2005, 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 "Loans to other funds" on the financial statements for the principal amounts due at December 31, 2005.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 13 - LOANS TO/FROM OTHER FUNDS - (Continued)

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

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|------------------|-----------------|------------------|
| 2006 | \$ 14,602 | \$ 2,326 | \$ 16,928 |
| 2007 | 15,040 | 1,888 | 16,928 |
| 2008 | 15,492 | 1,436 | 16,928 |
| 2009 | 15,956 | 972 | 16,928 |
| 2010 | <u>16,435</u> | <u>493</u> | <u>16,928</u> |
| Total | <u>\$ 77,525</u> | <u>\$ 7,115</u> | <u>\$ 84,640</u> |

NOTE 14 - RISK MANAGEMENT

A. Property and Casualty Insurance

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

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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 insurance 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 occurrence, including claim 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 \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000, with the General Reinsurance Corporation, through contracts with PEP.

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

Property Coverage

Through 2004, PEP retained 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 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 14 - RISK MANAGEMENT (Continued)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers Indemnity Company provides aggregate stop loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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 government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004:

| <u>Casualty Coverage</u> | <u>2005</u> | <u>2004</u> |
|--------------------------|----------------------|----------------------|
| Assets | \$ 29,719,675 | \$ 30,547,049 |
| Liabilities | \$ (15,994,168) | (16,989,918) |
| Retained earnings | <u>\$ 13,725,507</u> | <u>\$ 13,557,131</u> |
| | | |
| <u>Property Coverage</u> | <u>2005</u> | <u>2004</u> |
| Assets | \$ 4,443,332 | \$ 3,652,970 |
| Liabilities | \$ (1,068,245) | (544,771) |
| Retained earnings | <u>\$ 3,375,087</u> | <u>\$ 3,108,199</u> |

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The City's share of these unpaid claims is approximately \$ 14,474.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 14 - RISK MANAGEMENT - (Continued)

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, 2005, the pool had cash reserves of \$3,240,352 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 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 15 - 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% 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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

For the year ended December 31, 2005, 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% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2005 was 13.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.7% 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, 2005, 2004, and 2003, were \$265,310, \$220,458, and \$220,793, respectively; 100% has been contributed for 2004 and 2003. 85% has been contributed for 2005, \$39,296 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 2005.

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% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police for the years ended December 31, 2005, 2004, and 2003, were \$91,674, \$100,116, and \$77,903, respectively. The full amount has been contributed for 2004 and 2003. 81% for police and fire has been contributed for 2005 with the remainder of \$17,114 being reported as a liability in the respective funds.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 16 - 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 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 2005 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% 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 OPER's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 1.00% and 6.00% annually for the next eight years and 4.00% annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 376,109 as of December 31, 2005. The number of active participants for both plans used in the December 31, 2004, actuarial valuation was 355,287. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$111,124. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which allow additional funds to be allocated to the health care plan.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS – (Continued)

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly 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% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees and survivors 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 2005 that were used to fund postemployment benefits were \$32,068 for police and \$20,500 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), was 13,812 for police and 10,528 for firefighters.

NOTE 17 - 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 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).

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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 | |
|---|------------------|
| | <u>General</u> |
| Budget basis | \$ 3,741 |
| Net adjustment for revenue accruals | 101,782 |
| Net adjustment for expenditure accruals | 229,959 |
| Net adjustment for other sources/uses | (363,408) |
| Adjustment for encumbrances | <u>151,808</u> |
| GAAP basis | <u>\$123,882</u> |

NOTE 18 - 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 are 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, 2005.

B. Litigation

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

NOTE 19 - 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 December 31, 2005, the principal outstanding aggregated \$9,869,006.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

City of Clyde
Sandusky County
222 Main Street
Clyde, Ohio 43410-1637

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, Sandusky County (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2006, 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. Except as discussed in the preceding sentence, 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 to express our opinion on the financial statements and not to opine 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 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 2005-001.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable condition 2005-001 listed above to be a material weakness. In a separate letter to the City's management dated November 30, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-002. In a separate letter to the City's management dated November 30, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and City Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 6, 2006

**CITY OF CLYDE
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING NUMBER 2005-001

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. 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.

We recommend the City 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.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collections, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Council can authorize the drawing of a warrant for the payment of the amount due. The Council has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Council.

**FINDING NUMBER 2005-002
(Continued)**

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Council may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Twenty two percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred, and there was no evidence that the City followed the aforementioned exceptions. Also, blanket purchase orders were not cancelled at year end and the City Council did not establish maximum limits. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Certification is not only required by Ohio law but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and help reduce the possibility of City funds being over expended or exceeding budgetary spending limitations as set by the Council. To improve controls over disbursements, we recommend all City disbursements receive prior certification of the Finance Director and that Council periodically review the expenditures made to ensure they are within the appropriations adopted by the Council, certified by the Finance Director and recorded against appropriations. The City passed resolution 2006-103 on October 3, 2006, establishing the maximum amount for the blanket certificate.

Officials’ Response: We did not receive a response from Officials to the findings reported above.

**CITY OF CLYDE
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|------------------------------------|------------------|--|
| 2004-001 | Material Weakness – Capital Assets | No | Repeated as Finding # 2005-001. |



**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 28, 2006**