



Mary Taylor, CPA
Auditor of State

**CITY OF CLYDE
SANDUSKY COUNTY**

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Mary Taylor, CPA

Auditor of State

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, 2006, 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 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, 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, 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 Sewer Fund and Electric Fund of the City of Clyde, Sandusky County, Ohio, as of December 31, 2006, 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 Fund, Water Fund, and the aggregate remaining fund information for the City of Clyde, Sandusky County, Ohio, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General 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 December 12, 2007, 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 did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information.



Mary Taylor, CPA
Auditor of State

December 12, 2007

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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, 2006. 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 2006 are as follows:

- The total net assets of the City increased \$1,366,169. Net assets of governmental activities increased \$883,077 or 15.95% over the restated 2005 net assets and net assets of business-type activities increased \$483,092 or 1.17% over restated 2005 net assets.
- General revenues accounted for \$5,417,824 or 87.13% of total governmental activities revenue. Program specific revenues accounted for \$799,986 or 12.87% of total governmental activities revenue of \$6,217,810.
- The City had \$4,751,374 in expenses related to governmental activities; \$799,986 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,951,388 were offset by general revenues (primarily property taxes and income taxes) of \$5,417,824.
- The general fund had revenues and other financing sources of \$4,808,814 in 2006. This represents an increase of \$81,147 from 2005 revenues. The expenditures and other financing uses of the general fund, which totaled \$4,831,411 in 2006, an increase of \$227,626 from 2005. The net decrease in fund balance for the general fund was \$22,597 or 1.42%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, and Electric enterprise funds, increased in 2006 by \$483,092. This increase in net assets was due primarily transfers from governmental activities and capital contributions which totaled \$686,090.
- In the general fund, the actual revenues and other financing sources exceed the final budgeted revenues by \$1,018,970 and actual expenditures and other financing uses were \$278,865 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 \$716,282 during the year. Budgeted expenditures and other financing uses increased \$867,297 from the original to the final budget due primarily to an increase in the cost of security of persons and property expenditures.

The Basic Financial Statements

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

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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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 2006?" 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.

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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(Continued)**

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 only major governmental fund is the general 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 solid waste 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.

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 fund is 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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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(Continued)**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2006 and 2005. Certain 2005 amounts have been restated as described in Note 3.B. of the notes to the financial statements.

	Net Assets					
	Governmental Activities 2006	Business-type Activities 2006	Restated Governmental Activities 2005	Restated Business-type Activities 2005	2006 Total	Restated 2005 Total
<u>Assets</u>						
Current and other assets	\$ 4,201,960	\$ 12,230,041	\$ 3,997,098	\$ 13,094,093	\$ 16,432,001	\$ 17,091,191
Capital assets, net	6,967,208	43,712,504	6,755,428	42,806,969	50,679,712	49,562,397
Total assets	11,169,168	55,942,545	10,752,526	55,901,062	67,111,713	66,653,588
<u>Liabilities</u>						
Long-term liabilities outstanding	4,096,491	13,835,002	4,400,389	14,181,567	17,931,493	18,581,956
Other liabilities	654,703	355,824	817,240	450,868	1,010,527	1,268,108
Total liabilities	4,751,194	14,190,826	5,217,629	14,632,435	18,942,020	19,850,064
<u>Net Assets</u>						
Invested in capital assets, net of related debt	3,085,931	30,280,689	2,553,340	28,796,041	33,366,620	31,349,381
Restricted	1,547,793	1,566,252	1,142,035	1,478,425	3,114,045	2,620,460
Unrestricted	1,784,250	9,904,778	1,839,522	10,994,161	11,689,028	12,833,683
Total net assets	\$ 6,417,974	\$ 41,751,719	\$ 5,534,897	\$ 41,268,627	\$ 48,169,693	\$ 46,803,524

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$48,169,693. At year-end, net assets were \$6,417,974 and \$41,751,719 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 75.52% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$3,085,931 and \$30,280,689 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, 2006, 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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

A portion of the City's net assets, \$3,114,045, 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 \$1,784,250 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 2006 and 2005. Certain 2005 amounts have been restated as described in Note 3.B. of the notes to the financial statements.

	Change in Net Assets					
	Governmental	Business-type	Restated	Restated		
	Activities	Activities	Governmental	Business-type	2006	Restated
	2006	2006	Activities	Activities	Total	2005
	Total					
Revenues						
Program revenues:						
Charges for services	\$ 247,927	\$ 20,193,356	\$ 193,951	\$ 13,082,780	\$ 20,441,283	\$ 13,276,731
Operating grants and contributions	354,266		362,513		354,266	362,513
Capital grants and contributions	197,793	4,991	430,787		202,784	430,787
Total program revenues	799,986	20,198,347	987,251	13,082,780	20,998,333	14,070,031
General revenues:						
Property taxes	780,555		744,203		780,555	744,203
Income taxes	3,672,597		3,535,471		3,672,597	3,535,471
Unrestricted grants and entitlements	348,491		497,447		348,491	497,447
Investment earnings	525,100	58,015	310,020	33,510	583,115	343,530
Miscellaneous	91,081		97,388		91,081	97,388
Total general revenues	5,417,824	58,015	5,184,529	33,510	5,475,839	5,218,039
Total revenues	6,217,810	20,256,362	6,171,780	13,116,290	26,474,172	19,288,070
Expenses:						
General government	1,272,786		856,538		1,272,786	856,538
Security of persons and property	2,136,337		1,971,347		2,136,337	1,971,347
Public health and welfare	485,643		449,428		485,643	449,428
Transportation	220,995		216,848		220,995	216,848
Community environment	284,818		677,767		284,818	677,767
Leisure time activity	108,831		138,504		108,831	138,504
Other	65,062		60,656		65,062	60,656
Interest and fiscal charges	176,902		187,292		176,902	187,292
Water		2,435,369		2,230,508	2,435,369	2,230,508
Sewer		2,017,294		2,144,824	2,017,294	2,144,824
Electric		15,903,966		7,329,708	15,903,966	7,329,708
Total expenses	4,751,374	20,356,629	4,558,380	11,705,040	25,108,003	16,263,420
Increase in net assets before transfers	1,466,436	(100,267)	1,613,400	1,411,250	1,366,169	3,024,650
Transfers	(583,359)	583,359	(422,813)	422,813		
Change in net assets	883,077	483,092	1,190,587	1,834,063	1,366,169	3,024,650
Net assets at beginning of year (restated)	5,534,897	41,268,627	4,344,310	39,434,564	46,803,524	43,778,874
Net assets at end of year	\$ 6,417,974	\$ 41,751,719	\$ 5,534,897	\$ 41,268,627	\$ 48,169,693	\$ 46,803,524

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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(Continued)**

Governmental Activities

Governmental activities net assets increased \$883,077 in 2006. 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 \$2,136,337 which accounted for 44.96% of the total governmental activities expenses of the City. These expenses were partially funded by \$143,689 in direct charges to users of the services. General government expenses totaled \$1,272,786 which was partially funded by \$12,004 in direct charges to users of the services and \$107,167 in capital grants and contributions.

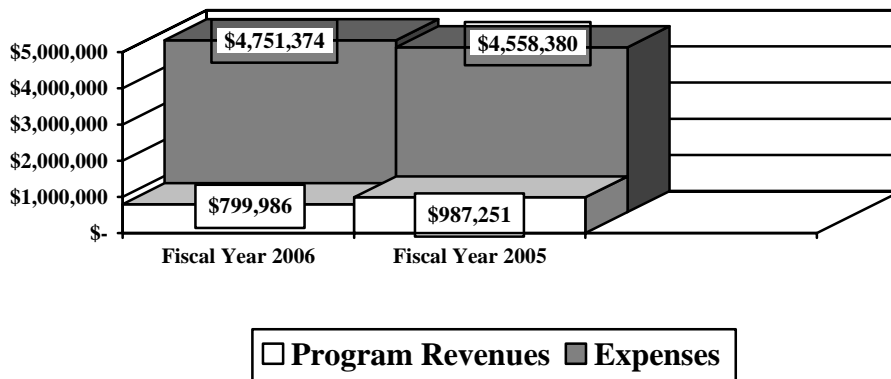
The state and federal government contributed to the City a total of \$354,266 in operating grants and contributions and \$197,793 in capital grants and contributions. These revenues are restricted to a particular program or purpose. \$73,174 of the capital grants and contributions received subsidized transportation programs.

General revenues totaled \$5,417,824 and amounted to 87.13% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,453,152. 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 \$348,491.

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.

The following graph shows program revenues and total expenses of the governmental activities for 2006 and 2005.

Governmental Activities – Program Revenues vs. Total Expenses



**CITY OF CLYDE
SANDUSKY COUNTY**

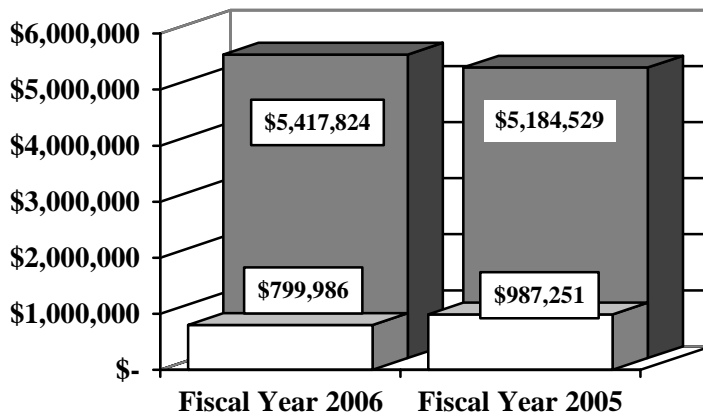
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The following table shows the cost of services and net cost of services of the governmental activities for 2006 and 2005.

	Governmental Activities			
	Total Cost of Services 2006	Net Cost of Services 2006	Restated Total Cost of Services 2005	Restated Net Cost of Services 2005
Program Expenses:				
General government	\$ 1,272,786	\$ 1,153,615	\$ 856,538	\$ 444,703
Security of persons and property	2,136,337	1,992,648	1,971,347	1,864,360
Public health and welfare	485,643	450,484	449,428	386,954
Transportation	220,995	(171,873)	216,848	(117,705)
Community environment	284,818	240,050	677,767	642,404
Leisure time activity	108,831	67,355	138,504	102,465
Other	65,062	42,207	60,656	60,656
Interest and fiscal charges	176,902	176,902	187,292	187,292
Total	\$ 4,751,374	\$ 3,951,388	\$ 4,558,380	\$ 3,571,129

The dependence upon general revenues for governmental activities is apparent, with 83.16% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



□ Program Revenues ■ General Revenues

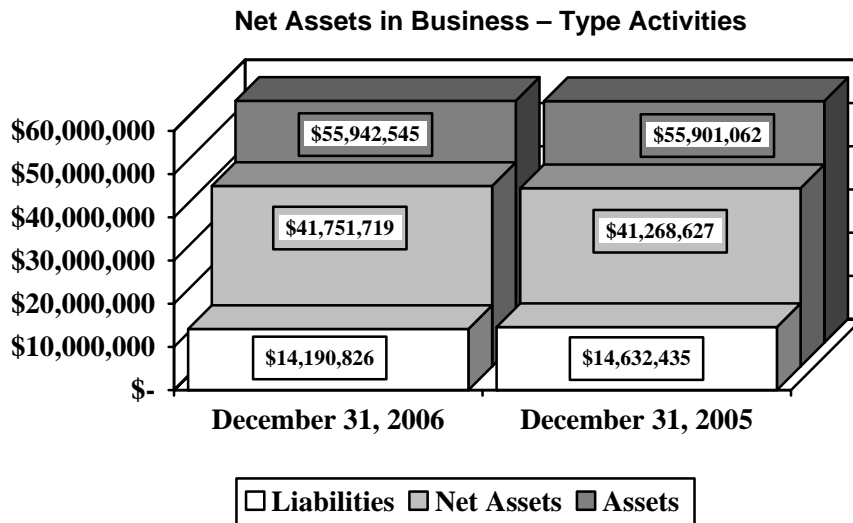
**CITY OF CLYDE
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Business-type Activities

Business-type activities include the water, sewer, and electric enterprise funds. These programs had program revenues of \$20,198,347, general revenues of \$58,015, transfers and capital contributions from governmental activities of \$686,090 and transfers out to governmental activities of \$102,731, and expenses of \$20,356,629 for 2006. The Water fund had expenses of \$2,435,666 which were 90.89% funded by user charges for services which totaled \$2,213,687. The Water fund also received \$12,993 in capital contributions from governmental funds. The Sewer fund had expenses of \$2,017,548 which were 76.17% funded by user charges for services of \$1,536,652. The Sewer fund also received capital grants and contributions totaling \$4,991, capital contributions from governmental funds for \$23,159, and transfers from governmental activities totaling \$210,797. The Electric fund had expenses of \$15,905,036 which were fully funded by user charges for services which totaled \$16,443,017. The Electric fund also received capital contributions from governmental funds for \$16,516, transfers from the governmental funds totaling \$422,625, and made transfers of capital to governmental funds totaling \$102,731.

The graph below shows the business-type activities assets, liabilities and net assets at December 31, 2006 and 2005.



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.

**CITY OF CLYDE
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

The City's governmental funds reported a combined fund balance of \$2,815,583 which is \$315,857 above last year's total of \$2,499,726. The Permanent Improvement capital projects fund was presented as a major fund in 2005, but is no longer major in 2006, therefore it is presented as a nonmajor fund for both years for consistency.

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006, for all major and nonmajor governmental funds.

	<u>Fund Balances</u> 12/31/06	<u>Fund Balances</u> 12/31/05	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 1,567,652	\$ 1,590,249	\$ (22,597)
Other nonmajor governmental funds	<u>1,247,931</u>	<u>909,477</u>	<u>338,454</u>
Total	<u>\$ 2,815,583</u>	<u>\$ 2,499,726</u>	<u>\$ 315,857</u>

General Fund

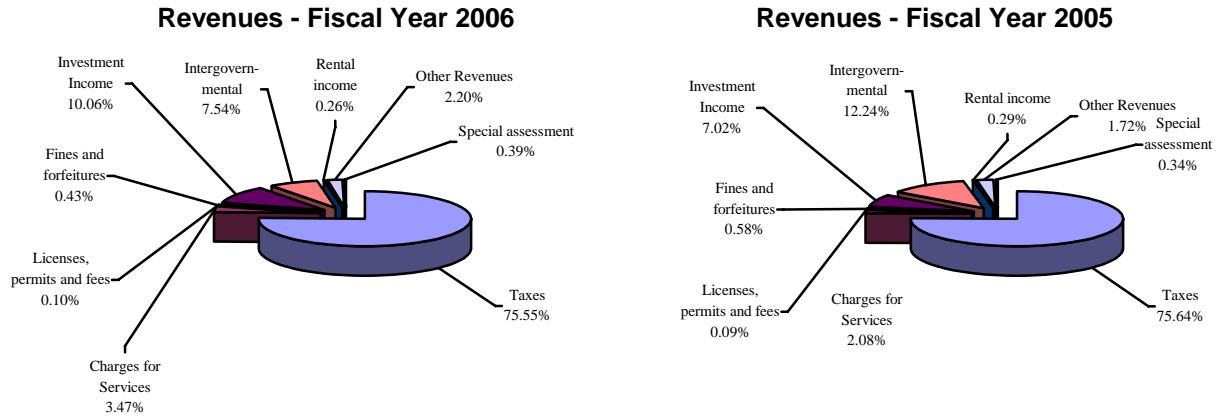
The City's general fund balance decreased \$22,597, primarily due to transfers out to other funds during the year. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 3,423,929	\$ 3,290,831	4.04 %
Charges for services	157,293	90,604	73.60 %
Licenses, permits and fees	4,508	4,165	8.24 %
Fines and forfeitures	19,692	25,077	(21.47) %
Special assessments	17,452	14,805	17.88 %
Intergovernmental	341,297	532,485	(35.90) %
Investment income	455,996	305,534	49.25 %
Rental income	11,949	12,769	(6.42) %
Other	<u>99,747</u>	<u>101,397</u>	(1.63) %
Total	<u>\$ 4,531,863</u>	<u>\$ 4,377,667</u>	3.52 %

Tax revenue represents 75.55% 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. The decrease in intergovernmental revenues is due to a decrease in estate taxes, which was unusually high in 2005 (in 2005 there was an increase of 65% over 2004 in intergovernmental revenue primarily due to estate taxes).

**CITY OF CLYDE
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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The table that follows assists in illustrating the expenditures of the general fund.

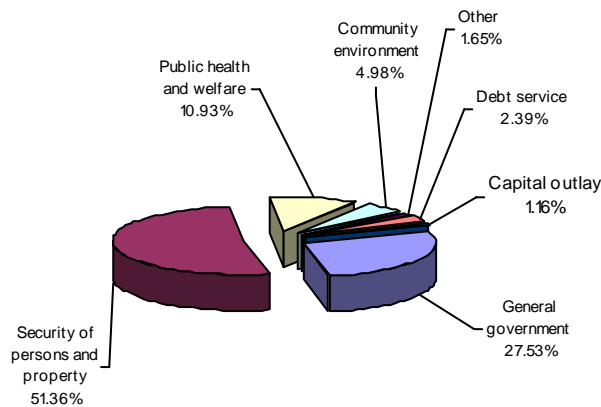
	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 1,128,177	\$ 728,357	54.89 %
Security of persons and property	2,104,757	2,172,138	(3.10) %
Public health and welfare	447,708	378,507	18.28 %
Community environment	203,910	649,628	(68.61) %
Other	67,761	65,390	3.63 %
Capital outlay	47,650		100.00 %
Debt service	98,026	61,259	60.02 %
Total	<u>\$ 4,097,989</u>	<u>\$ 4,055,279</u>	1.05 %

The largest expenditure line item, security of persons and property, experienced a slight decrease which is primarily attributed to wage and benefit decreases and overall cost decreases in purchased goods and services. Capital outlay and debt service increased because the City leased two additional vehicles for the police department in 2006 and a full year of lease payments were made during 2006.

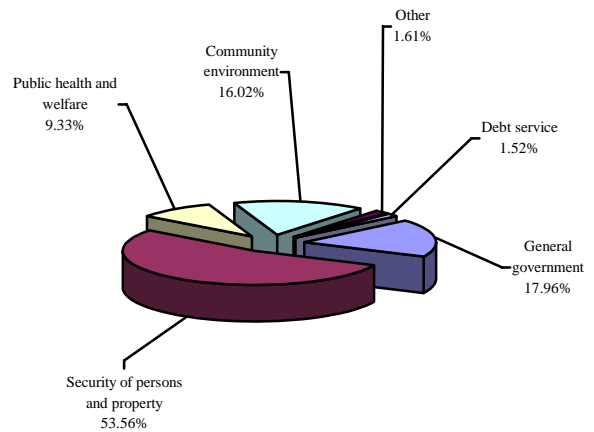
**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Expenditures - Fiscal Year 2006



Expenditures - Fiscal Year 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 \$867,297. Original appropriations of \$4,487,932 were increased to \$5,355,229 primarily due to the purchase of a fire truck and other expected increases to police and fire department expenditures. Actual revenues and other financing sources of \$5,032,011 exceeded the final budgeted revenues and other financing sources by \$1,018,970. Actual expenditures and other financing uses came in \$278,865 less than the final budgeted amounts.

Proprietary Funds

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

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The City's proprietary funds, consisting of the enterprise funds water, sewer and electric, reported a combined increase in net assets of \$481,471. The most significant change in net assets occurred in the Electric fund, which increased \$907,954 over 2005. The Electric fund had an increase in operating revenues of \$7,137,458 or 76.70% over 2005 and an increase in operating expenses of \$8,196,739 or 118.42%, both increases were due to the new utility contract for electric services which increased the cost and the charge to customers dramatically over the previous years.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006 the City had \$50,679,712 (net of accumulated depreciation) invested in land, construction in progress, buildings and improvements, land improvements, equipment, vehicles and infrastructure. Of this total, \$6,967,208 was reported in governmental activities and \$43,712,504 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005 (certain 2005 balances have been restated as described in note 9.A. of the notes to the basic financial statements):

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

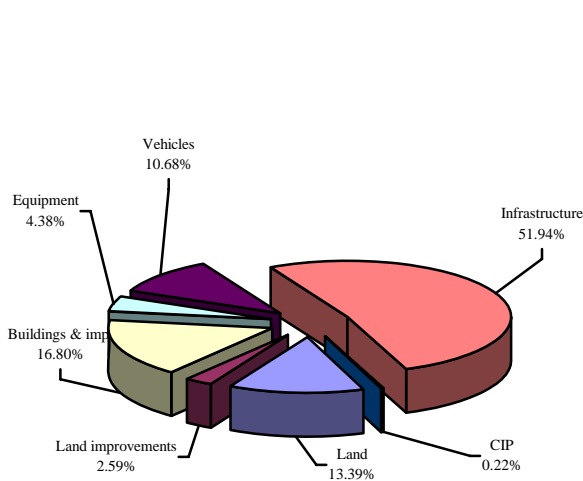
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2006	Restated 2005	2006	Restated 2005	2006	Restated 2005
Land	\$ 932,596	\$ 1,230,504	\$ 576,820	\$ 576,820	\$ 1,509,416	\$ 1,807,324
Construction-in-progress	15,432	736,502	792,878	465,044	808,310	1,201,546
Land improvements	180,548	206,355	118,601	136,868	299,149	343,223
Buildings and improvements	1,170,173	1,172,116	8,236,272	7,446,303	9,406,445	8,618,419
Equipment	305,476	201,956	1,768,416	1,876,316	2,073,892	2,078,272
Vehicles	743,754	299,010	168,778	172,320	912,532	471,330
Infrastructure	<u>3,619,229</u>	<u>2,908,985</u>	<u>32,050,739</u>	<u>32,133,298</u>	<u>35,669,968</u>	<u>35,042,283</u>
Totals	<u>\$ 6,967,208</u>	<u>\$ 6,755,428</u>	<u>\$ 43,712,504</u>	<u>\$ 42,806,969</u>	<u>\$ 50,679,712</u>	<u>\$ 49,562,397</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

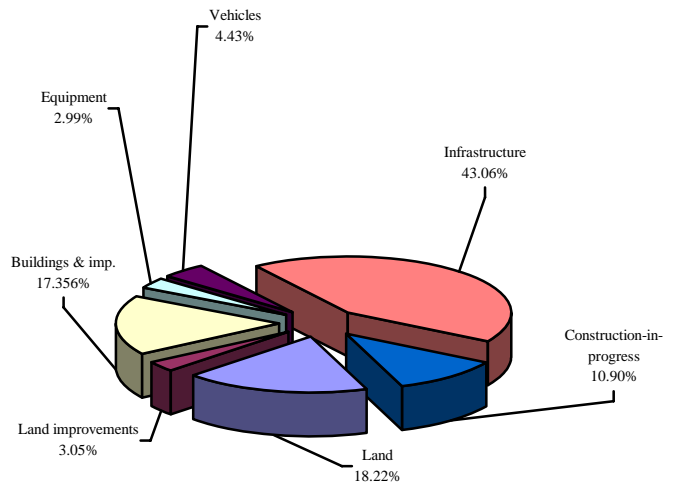
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

Capital Assets - Governmental Activities 2006



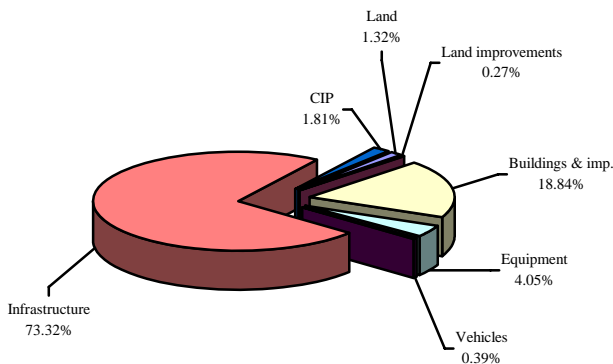
Capital Assets - Governmental Activities 2005



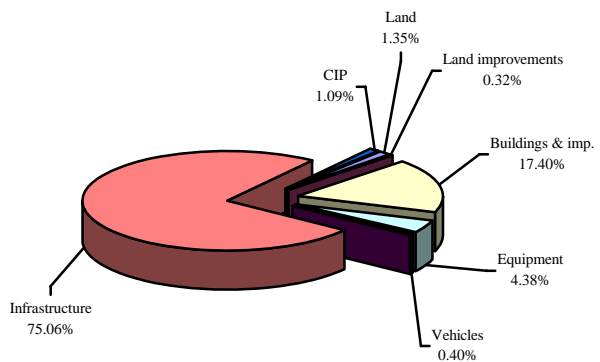
The City's largest capital asset category is infrastructure which includes roads, bridges, and sidewalks. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The City is only reporting current year back to 2003 infrastructure in the governmental capital assets and the Water Fund, 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 2006.

Capital Assets - Business-Type Activities 2006



Capital Assets - Business-Type Activities 2005



**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 73.32% of the City's total business-type capital assets.

Debt Administration

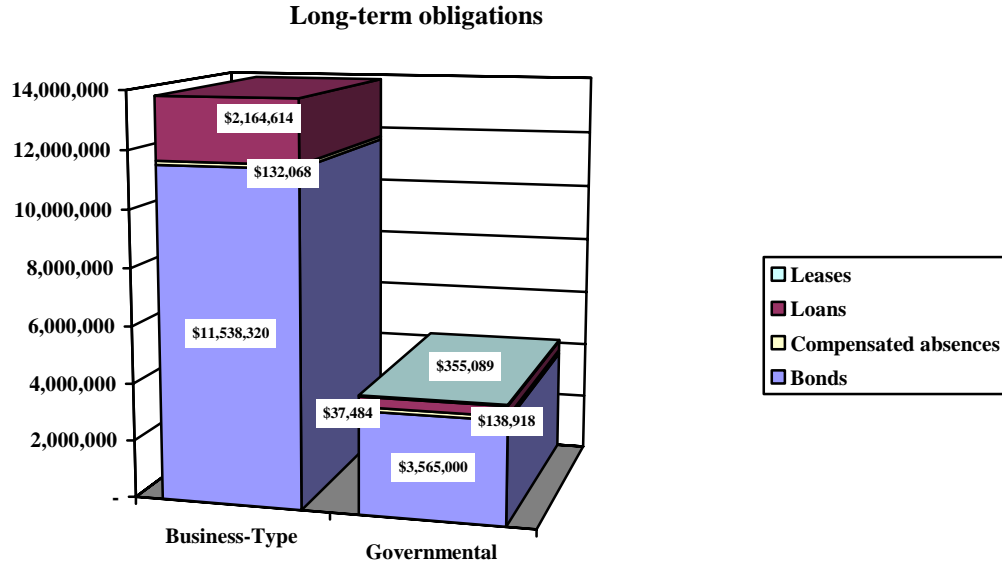
The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	Governmental Activities	
	2006	2005
General obligation bonds payable	\$ 3,565,000	\$ 3,845,000
Police Pension liability	76,296	77,657
Fire rescue truck loan	278,793	324,288
Capital lease obligation payable	37,484	32,800
Compensated absences	138,918	120,644
Total long-term obligations	\$ 4,096,491	\$ 4,400,389
	Business-types Activities	
	2006	2005
Revenue bonds	\$ 2,615,000	\$ 2,865,000
General obligation bonds	9,250,000	9,795,000
Deferred charges/unamortized premium	(326,680)	(367,946)
Total bonds	11,538,320	12,292,054
OWDA Loans	2,164,614	1,718,874
Compensated absences	132,068	170,639
Total long-term obligations	\$ 13,835,002	\$ 14,181,567

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

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



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 and commercial base continues to show strength. The City's largest employer, the Whirlpool Corporation, continues to be recognized as a strong employer providing community growth and producing a quality product. Fisher & Paykel, who moved their factory all the way across the globe from New Zealand in 2005, have started production of electric motors for Whirlpool and their own brand of Clothes Washing Machines, and have settled into the community very well.

In an effort to retain the industries the City of Clyde currently has, and to attract new businesses in the future, the City has embarked on two separate new ventures. During 2006, Clyde Light and Power ("CL&P") installed two 96 single-mode fiber optic cable loops to create a fiber optic backbone for our developing broadband over power lines project. After running the cable, the CL&P linemen commenced with splicing the fiber optics and terminating the fiber at our communications center. The crews will start installing the Broadband over Power Line hardware on the fiber optic backbone and electric secondary system as the next step in the installations process. We are hoping to have low cost high speed internet and telephone service available to electric customers in Clyde sometime in late 2007.

**CITY OF CLYDE
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Another project we are working on is diversifying our source of electric power. The City started investigating alternative sources of electric power. We investigated a Bio-Mass gasification process through Princeton Environmental, which would generate sufficient steam to generate up to 10 Megawatts of electricity. We sent our Mayor and Electric Superintendent to China to see first hand how these units worked, have held work sessions of Council and public hearings and are hoping to proceed with this project in the future. The City has also explored the possibility of Wind Power by conducting a feasibility study and authorizing a one year wind study with the erection of a 60m tower and meteorological equipment. We are also participating with AMP Ohio in a hydroelectric plant and a coal gasification plant, both of which are located on the Ohio River. By diversifying our electric sources and utilizing alternative energy sources, we hope to continue to provide low cost electricity to our commercial and industrial customers and to all the residents of this city.

Recent investments during 2006 in Clyde facilities include two new grain silos worth \$3.2 million at the Country Springs Farmers Coop on Burkholder road, a \$1.5 million industrial addition of 44,800 square feet at the Titan Plastics factory on Elm Street and a new 105,000 square foot warehouse worth \$2.6 million for SPD Enterprises, Inc. on Elm Street. Another new commercial enterprise in 2006 is a new 3,485 square foot dentist's office worth \$625,000 on East McPherson Highway and a planned commercial addition at the SuperAmerica Speedway store on West McPherson Highway.

In 2006 Croghan Colonial Bank built a new 3,120 square foot bank building, including three remote drive through teller facilities, worth \$700,000 on South Main Street and the Clyde Findlay Credit Union built a 1,500 square foot additional building worth \$150,000 by their commercial accounts building on West McPherson Highway, for the purpose of record storage.

Residential development is also continuing at a pretty brisk pace. During 2006, there was one duplex condominium complex and one single unit condominium complex built. In addition, there were permits issued for 18 new single family homes including two in Camelot Estates, eleven in the Norwest Meadows subdivision and one in the new Wilson subdivision.

A large portion of General Fund revenues is generated by 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 10.0 percent in 2005. In 2006 growth was very modest at only 0.5 percent. 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.

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, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,995,860	\$ 7,884,139	\$ 9,879,999
Receivables (net of allowances for uncollectibles):			
Income taxes	1,065,120		1,065,120
Real and other taxes	363,326	73,324	436,650
Accounts	26,796	2,217,296	2,244,092
Special assessments	231,245		231,245
Accrued interest	132,612		132,612
Internal balances	69,055	(69,055)	
Due from other governments.	251,056		251,056
Materials and supplies inventory.	66,890	286,966	353,856
Unamortized bond issue costs		271,119	271,119
Restricted assets:			
Equity in pooled cash and cash equivalents		1,566,252	1,566,252
Capital assets:			
Land and construction-in-progress	948,028	1,369,698	2,317,726
Depreciable capital assets, net	6,019,180	42,342,806	48,361,986
Total capital assets, net	<u>6,967,208</u>	<u>43,712,504</u>	<u>50,679,712</u>
Total assets.	<u>11,169,168</u>	<u>55,942,545</u>	<u>67,111,713</u>

(Continued)

**CITY OF CLYDE
SANDUSKY COUNTY**

STATEMENT OF NET ASSETS (CONTINUED)
DECEMBER 31, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Liabilities:			
Accounts payable	\$ 89,085	\$ 69,269	\$ 158,354
Accrued wages and benefits	131,755	93,318	225,073
Pension obligation payable	62,087	48,460	110,547
Deferred revenue	344,816		344,816
Due to other governments	12,687	186	12,873
Accrued interest payable	14,273	144,591	158,864
Long-term liabilities:			
Due within one year	390,381	962,277	1,352,658
Due in more than one year	3,706,110	12,872,725	16,578,835
Total liabilities	<u>4,751,194</u>	<u>14,190,826</u>	<u>18,942,020</u>
Net assets:			
Invested in capital assets, net of related debt	3,085,931	30,280,689	33,366,620
Restricted for:			
Capital projects	818,177		818,177
Debt service		1,566,252	1,566,252
Transportation	582,688		582,688
Security of persons and property	66,422		66,422
Other purposes	80,506		80,506
Unrestricted	<u>1,784,250</u>	<u>9,904,778</u>	<u>11,689,028</u>
Total net assets	<u>\$ 6,417,974</u>	<u>\$ 41,751,719</u>	<u>\$ 48,169,693</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 1,272,786	\$ 12,004		\$ 107,167
Security of persons and property. . .	2,136,337	143,689		
Public health and welfare	485,643		\$ 35,159	
Transportation	220,995	877	318,817	73,174
Community environment.	284,818	27,316		17,452
Leisure time activity.	108,831	41,186	290	
Other	65,062	22,855		
Interest and fiscal charges.	176,902			
Total governmental activities	<u>4,751,374</u>	<u>247,927</u>	<u>354,266</u>	<u>197,793</u>
Business-type Activities:				
Water	2,435,369	2,213,687		
Sewer	2,017,294	1,536,652		4,991
Electric	15,903,966	16,443,017		
Total business-type activities	<u>20,356,629</u>	<u>20,193,356</u>		<u>4,991</u>
Total primary government	<u>\$ 25,108,003</u>	<u>\$ 20,441,283</u>	<u>\$ 354,266</u>	<u>\$ 202,784</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
\$	(1,153,615)			\$ (1,153,615)
	(1,992,648)			(1,992,648)
	(450,484)			(450,484)
	171,873			171,873
	(240,050)			(240,050)
	(67,355)			(67,355)
	(42,207)			(42,207)
	(176,902)			(176,902)
	<u>(3,951,388)</u>			<u>(3,951,388)</u>
		\$	(221,682)	(221,682)
			(475,651)	(475,651)
			539,051	539,051
			<u>(158,282)</u>	<u>(158,282)</u>
	<u>(3,951,388)</u>		<u>(158,282)</u>	<u>(4,109,670)</u>
	747,408			747,408
	33,147			33,147
	2,646,472			2,646,472
	1,026,125			1,026,125
	348,491			348,491
	525,100	58,015		583,115
	91,081			91,081
	<u>5,417,824</u>	<u>58,015</u>		<u>5,475,839</u>
	<u>(583,359)</u>	<u>583,359</u>		
	883,077	483,092		1,366,169
	<u>5,534,897</u>	<u>41,268,627</u>		<u>46,803,524</u>
\$	<u>6,417,974</u>	\$	<u>41,751,719</u>	\$ <u>48,169,693</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,013,017	\$ 942,684	\$ 1,955,701
Receivables (net of allowance for uncollectibles):			
Income taxes	745,584	319,536	1,065,120
Real and other taxes	329,264	34,062	363,326
Accounts.	26,721	75	26,796
Special assessments	73,603	157,642	231,245
Accrued interest	126,078	6,117	132,195
Due from other funds.	73,138		73,138
Due from other governments.	117,779	133,277	251,056
Materials and supplies inventory.	7,045		7,045
	<u>\$ 2,512,229</u>	<u>\$ 1,593,393</u>	<u>\$ 4,105,622</u>
Liabilities:			
Accounts payable	\$ 76,209	\$ 3,816	\$ 80,025
Accrued wages and benefits.	115,890	2,622	118,512
Pension obligation payable	54,329	872	55,201
Due to other governments.	11,899		11,899
Deferred revenue	686,250	338,152	1,024,402
	<u>944,577</u>	<u>345,462</u>	<u>1,290,039</u>
Fund balances:			
Reserved for encumbrances.	51,478	11,883	63,361
Reserved for materials and supplies inventory	7,045		7,045
Unreserved, undesignated, reported in:			
General fund	1,509,129		1,509,129
Special revenue funds		634,697	634,697
Debt service fund		5,425	5,425
Capital projects funds		595,926	595,926
	<u>1,567,652</u>	<u>1,247,931</u>	<u>2,815,583</u>
Total liabilities and fund balances.	<u>\$ 2,512,229</u>	<u>\$ 1,593,393</u>	<u>\$ 4,105,622</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, 2006

Total governmental fund balances		\$ 2,815,583
<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.		6,578,443
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 18,510	
Income taxes	175,514	
Special assessments	231,245	
Intergovernmental revenues	146,788	
Interest	<u>107,529</u>	
Total		679,586
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 \$4,083) are included in governmental activities in the statement of net assets.		452,352
In the statement of activities interest is accrued on outstanding bonds and loans payable, whereas in governmental funds, interest expenditures are reported when due.		(14,273)
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	(3,565,000)	
Police pension liability	(76,296)	
Capital lease payable	(37,484)	
Fire rescue truck loan payable	(278,793)	
Compensated absences	<u>(136,144)</u>	
Total		<u>(4,093,717)</u>
Net assets of governmental activities		<u><u>\$ 6,417,974</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, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Income taxes	\$ 2,626,056	\$ 1,017,375	\$ 3,643,431
Real and other taxes	797,873	38,370	836,243
Charges for services	157,293	42,063	199,356
Licenses, permits and fees	4,508		4,508
Fines and forfeitures	19,692	3,756	23,448
Special assessments	17,452	32,334	49,786
Intergovernmental	341,297	301,748	643,045
Investment income	455,996	18,874	474,870
Rental income	11,949		11,949
Other	99,747	137,042	236,789
Total revenues	4,531,863	1,591,562	6,123,425
Expenditures:			
Current:			
General government	1,128,177	136,699	1,264,876
Security of persons and property.	2,104,757	39,943	2,144,700
Public health and welfare	447,708	33,533	481,241
Transportation		174,765	174,765
Community environment.	203,910		203,910
Leisure time activity		160,765	160,765
Other	67,761		67,761
Capital outlay.	47,650	540,260	587,910
Debt service:			
Principal retirement	88,461	281,361	369,822
Interest and fiscal charges	9,565	167,395	176,960
Total expenditures	4,097,989	1,534,721	5,632,710
Excess of revenues over expenditures	433,874	56,841	490,715
Other financing sources (uses):			
Capital lease transaction	47,650		47,650
Transfers in		645,427	645,427
Transfers out	(733,422)	(442,696)	(1,176,118)
Sale of Capital Assets	229,301	78,882	308,183
Total other financing sources (uses)	(456,471)	281,613	(174,858)
Net change in fund balances	(22,597)	338,454	315,857
Fund balances at beginning of year	1,590,249	909,477	2,499,726
Fund balances at end of year.	\$ 1,567,652	\$ 1,247,931	\$ 2,815,583

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, 2006

Net change in fund balances - total governmental funds	\$ 315,857
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental 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 exceeded depreciation in the current period.	
Capital asset additions	\$ 719,679
Current year depreciation	<u>(271,333)</u>
Total	448,346
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.	(324,848)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	92,581
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.	369,822
Proceeds of capital lease transaction are reported as an other financing source in the governmental funds, but they increase liabilities on the statement of net assets.	(47,650)
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.	58
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.	(19,865)
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 \$1,621, is allocated among the governmental activities.	<u>48,776</u>
Change in net assets of governmental activities	<u><u>\$ 883,077</u></u>

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 1,908,154	\$ 2,322,736	\$ 2,594,874	\$ 272,138
Real and other taxes	265,270	322,905	817,687	494,782
Charges for services	226,737	276,000	453,402	177,402
Licenses, permits and fees	3,163	3,850	4,508	658
Fines and forfeitures	16,430	20,000	20,449	449
Intergovernmental	272,085	331,200	321,234	(9,966)
Special assessments			17,453	17,453
Investment income	316,282	385,000	442,965	57,965
Rental income	8,215	10,000	11,949	1,949
Other	79,153	96,350	47,271	(49,079)
Total revenues	<u>3,095,489</u>	<u>3,768,041</u>	<u>4,731,792</u>	<u>963,751</u>
Expenditures:				
Current:				
General government	910,175	1,234,233	1,145,014	89,219
Security of persons and property	1,963,281	2,278,619	2,182,556	96,063
Public health and welfare	402,796	484,701	447,784	36,917
Community environment	447,290	501,279	451,247	50,032
Other	49,201	76,600	54,696	21,904
Total expenditures	<u>3,772,743</u>	<u>4,575,432</u>	<u>4,281,297</u>	<u>294,135</u>
Excess of revenues over (under)	<u>(677,254)</u>	<u>(807,391)</u>	<u>450,495</u>	<u>1,257,886</u>
Other financing sources (uses):				
Sale of capital assets	176,625	215,000	229,301	14,301
Transfers out	(695,718)	(773,797)	(773,422)	375
Other financing sources	24,645	30,000	70,918	40,918
Other financing uses	(19,471)	(6,000)	(21,645)	(15,645)
Total other financing sources (uses)	<u>(513,919)</u>	<u>(534,797)</u>	<u>(494,848)</u>	<u>39,949</u>
Net change in fund balance	(1,191,173)	(1,342,188)	(44,353)	1,297,835
Fund balance at beginning of year	834,551	834,551	834,551	
Prior year encumbrances appropriated	151,808	151,808	151,808	
Fund balance at end of year	\$ (204,814)	\$ (355,829)	\$ 942,006	\$ 1,297,835

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31,2006**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Electric
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 1,427,229	\$ 1,571,429	\$ 4,885,481
Receivables (net of allowance for uncollectibles):			
Excise taxes			73,324
Accounts	234,183	132,863	1,850,250
Accrued interest			
Due from other governments			
Materials and supplies inventory	38,006	19,636	229,324
Unamortized bond issuance costs	40,281		230,838
Total current assets	1,739,699	1,723,928	7,269,217
Noncurrent assets:			
Restricted:			
Cash and cash equivalents	817,730		748,522
Capital assets:			
Land and construction-in-progress	708,662	66,766	594,270
Depreciable capital assets, net	13,395,441	18,188,730	10,758,635
Total capital assets	14,104,103	18,255,496	11,352,905
Total noncurrent assets	14,921,833	18,255,496	12,101,427
Total assets	16,661,532	19,979,424	19,370,644
Liabilities:			
Current liabilities:			
Accounts payable	27,802	11,805	29,662
Accrued wages and benefits	35,290	32,505	25,523
Pension obligation payable	18,781	17,020	12,659
Due to other funds			73,138
Due to other governments			186
Accrued interest payable	99,248	17,718	27,625
Compensated absences	17,463	10,497	4,398
OWDA loans payable - current	62,607	42,312	
Payable from restricted assets:			
Current portion of revenue bonds			265,000
Current portion of general obligation bonds	205,000		355,000
Total current liabilities	466,191	131,857	793,191
Long-term liabilities:			
Compensated absences	55,584	34,594	9,532
Revenue bonds payable			2,350,000
General obligation bonds payable	5,840,000		2,523,320
OWDA loans payable	1,105,242	954,453	
Total long-term liabilities	7,000,826	989,047	4,882,852
Total liabilities	7,467,017	1,120,904	5,676,043
Net assets:			
Invested in capital assets, net of related debt	6,931,535	17,258,731	6,090,423
Restricted for debt service	817,730		748,522
Unrestricted	1,445,250	1,599,789	6,855,656
Total net assets	\$ 9,194,515	\$ 18,858,520	\$ 13,694,601

Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.
Net assets of business-type

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ 7,884,139	\$ 40,159
73,324	
2,217,296	417
286,966	59,845
271,119	
<u>10,732,844</u>	<u>100,421</u>
1,566,252	
1,369,698	
<u>42,342,806</u>	<u>388,765</u>
<u>43,712,504</u>	<u>388,765</u>
<u>45,278,756</u>	<u>388,765</u>
<u>56,011,600</u>	<u>489,186</u>
69,269	9,060
93,318	13,243
48,460	6,886
73,138	
186	788
144,591	
32,358	2,471
104,919	
265,000	
<u>560,000</u>	
<u>1,391,239</u>	<u>32,448</u>
99,710	303
2,350,000	
8,363,320	
<u>2,059,695</u>	
<u>12,872,725</u>	<u>303</u>
<u>14,263,964</u>	<u>32,751</u>
30,280,689	388,765
1,566,252	
<u>9,900,695</u>	<u>67,670</u>
<u>41,747,636</u>	<u>\$ 456,435</u>
4,083	
<u>\$ 41,751,719</u>	

**CITY OF CLYDE
SANDUSKY COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Electric
Operating revenues:			
Charges for services	\$ 2,204,829	\$ 1,532,837	\$ 16,437,792
Other operating revenues	8,858	3,815	5,225
Total operating revenues	<u>2,213,687</u>	<u>1,536,652</u>	<u>16,443,017</u>
Operating expenses:			
Personal services	903,576	870,888	693,915
Contract services	301,454	435,969	13,858,064
Materials and supplies	345,404	164,505	283,774
Depreciation	559,582	504,972	263,761
Other operating expenses	3,540	5,871	18,915
Total operating expenses.	<u>2,113,556</u>	<u>1,982,205</u>	<u>15,118,429</u>
Operating income (loss)	<u>100,131</u>	<u>(445,553)</u>	<u>1,324,588</u>
Nonoperating revenues (expenses):			
Interest expense and fiscal charges	(322,110)	(35,343)	(362,678)
Interest revenue	24,452		33,563
Intergovernmental		4,991	
Excise tax expense			(423,929)
Total nonoperating revenues (expenses)	<u>(297,658)</u>	<u>(30,352)</u>	<u>(753,044)</u>
Income (loss) before contributions and transfers	(197,527)	(475,905)	571,544
Capital contributions	12,993	23,159	16,516
Transfers in		210,797	422,625
Transfers out			(102,731)
Changes in net assets	(184,534)	(241,949)	907,954
Net assets at beginning of year (restated)	<u>9,379,049</u>	<u>19,100,469</u>	<u>12,786,647</u>
Net assets at end of year	<u>\$ 9,194,515</u>	<u>\$ 18,858,520</u>	<u>\$ 13,694,601</u>

Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.
Changes in net assets of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Total	Governmental Activities - Internal Service Funds
\$ 20,175,458	\$ 699,474
17,898	3,000
<u>20,193,356</u>	<u>702,474</u>
2,468,379	415,538
14,595,487	63,942
793,683	136,643
1,328,315	37,749
28,326	9
<u>19,214,190</u>	<u>653,881</u>
<u>979,166</u>	<u>48,593</u>
(720,131)	
58,015	1,804
4,991	
(423,929)	
<u>(1,081,054)</u>	<u>1,804</u>
(101,888)	50,397
52,668	
633,422	
(102,731)	
<u>481,471</u>	<u>50,397</u>
	<u>406,038</u>
	<u>\$ 456,435</u>
1,621	
<u>\$ 483,092</u>	

**CITY OF CLYDE
SANDUSKY COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Electric
Cash flows from operating activities:			
Cash received from charges for services	\$ 2,212,901	\$ 1,577,892	\$ 15,711,441
Cash received from other operations.	8,858	3,815	5,225
Cash payments for personal services	(904,800)	(906,459)	(700,880)
Cash payments for contract services.	(294,148)	(449,931)	(13,842,314)
Cash payments for materials and supplies.	(364,732)	(177,256)	(260,011)
Cash payments for other expenses.	(3,540)	(5,871)	(18,915)
Net cash provided by operating activities.	<u>654,539</u>	<u>42,190</u>	<u>894,546</u>
Cash flows from noncapital financing activities:			
Cash received from grants and subsidies		12,491	
Cash payments for excise taxes			(423,929)
Cash received from internal loans			77,525
Transfers in from other funds		210,797	422,625
Transfers out to other funds			(102,731)
Net cash provided by (used in) noncapital financing activities		<u>223,288</u>	<u>(26,510)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(219,349)	(680,680)	(1,369,414)
Cash received from proceeds of OWDA loan		538,342	
Cash payments for principal retirement.	(261,373)	(31,229)	(595,000)
Cash payments for interest and fiscal charges	(325,359)	(27,579)	(298,814)
Net cash used in capital and related financing activities	<u>(806,081)</u>	<u>(201,146)</u>	<u>(2,263,228)</u>
Cash flows from investing activities:			
Interest received.	<u>24,452</u>		<u>33,563</u>
Net cash provided by investing activities	<u>24,452</u>		<u>33,563</u>
Net increase (decrease) in cash and cash equivalents	(127,090)	64,332	(1,361,629)
Cash and cash equivalents at beginning of year	<u>2,372,049</u>	<u>1,507,097</u>	<u>6,995,632</u>
Cash and cash equivalents at end of year.	<u>\$ 2,244,959</u>	<u>\$ 1,571,429</u>	<u>\$ 5,634,003</u>

Total	Governmental Activities - Internal Service Funds
\$ 19,502,234	\$ 699,474
17,898	3,000
(2,512,139)	(418,676)
(14,586,393)	(65,117)
(801,999)	(186,584)
(28,326)	(9)
<u>1,591,275</u>	<u>32,088</u>
12,491	
(423,929)	
77,525	
633,422	
(102,731)	
<u>196,778</u>	
(2,269,443)	(126,031)
538,342	
(887,602)	
(651,752)	
<u>(3,270,455)</u>	<u>(126,031)</u>
58,015	1,527
<u>58,015</u>	<u>1,527</u>
(1,424,387)	(92,416)
10,874,778	132,575
<u>\$ 9,450,391</u>	<u>\$ 40,159</u>

(Continued)

**CITY OF CLYDE
SANDUSKY COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 100,131	\$ (445,553)	\$ 1,324,588
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	559,582	504,972	263,761
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	8,072	45,055	(726,351)
(Increase) decrease in materials and supplies inventory.	(14,639)	(7,226)	25,447
Increase (decrease) in accounts payable	3,084	(19,249)	14,158
(Decrease) in accrued wages and benefits.	(678)	(3,949)	(617)
(Decrease) in compensated absences payable	(1,085)	(31,756)	(5,730)
Increase (decrease) in pension obligation payable. . .	72	(104)	(710)
Increase in due to other governments			
Net cash provided by operating activities	<u>\$ 654,539</u>	<u>\$ 42,190</u>	<u>\$ 894,546</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ 979,166	\$ 48,593
1,328,315	37,749
(673,224)	
3,582	(45,802)
(2,007)	(5,742)
(5,244)	(1,978)
(38,571)	(1,591)
(742)	71
	788
<u>\$ 1,591,275</u>	<u>\$ 32,088</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006**

		<u>Private-Purpose Trust</u>
Assets:		
Equity in pooled cash and cash equivalents. . . .	\$	6,725
		<hr/>
Total assets		6,725
		<hr/>
Liabilities:		
Accounts payable.		25
		<hr/>
Total liabilities		25
		<hr/>
Net Assets:		
Held in trust for private cemetery care		6,700
		<hr/>
Total net assets	\$	6,700
		<hr/> <hr/>

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, 2006

	Private-Purpose Trust
Additions:	
Interest	\$ 291
Total additions.	291
Deductions:	
Cemetery care	68
Total deductions	68
Changes in net assets.	223
Net assets at the beginning of the year.	6,477
Net assets at the end of the year	\$ 6,700

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, 2006**

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.

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

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, 2006. 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 Officers' 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, 2006
(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 is the City's major governmental fund:

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.

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; (b) construction and improvements other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

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 fund is a private-purpose trust 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, 2006
(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 for sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activities and operating expenses for the internal service fund include personnel costs, claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and agency funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition 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 sixty 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, 2006
(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, 2006, but which were levied to finance year 2007 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 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, 2006
(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, excepted 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 2006, investments were limited to nonnegotiable certificates of deposit, U.S. government money market mutual funds, and investments in State Treasury Asset Reserve of Ohio (STAR Ohio).

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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 2006. 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, 2006.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2006 amounted to \$455,996, which included \$411,807 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 with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

H. Inventories of Materials and Supplies

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. 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, 2006
(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	50 - 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, 2006
(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, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

M. Unamortized Bond Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refunding resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the proprietary fund financial statements, deferred charges, issuance costs and bond premiums are recognized in the current period.

N. Interfund Balances

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

O. 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 fund financial statements.

P. 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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

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

Q. 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.

R. 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. During 2006, the enterprise funds received \$52,668 in capital contributions from governmental funds.

S. 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.

T. 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 are the primary activity of the fund.

U. Extraordinary and Special Items

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Restatement of Net Assets

The City has presented a prior period adjustment to net assets for account changes for governmental activities and business-type activities in capital assets reported as of December 31, 2005. The effect on the Water fund was a restatement of net assets at December 31, 2005, of \$11,573,214 in the amount of \$2,194,165 for restated net assets of \$9,379,049. The following is the effect on net assets previously reported as of December 31, 2005:

	Governmental Activities	Business-Type Activities
Net Assets, December 31, 2005	\$ 4,865,175	\$ 43,462,792
Adjustment for capital assets	669,722	(2,194,165)
Restated net assets, December 31, 2005	\$ 5,534,897	\$ 41,268,627

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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;
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.

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

A. Cash on Hand

At year-end, the City had \$360 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."

B. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$9,511,542. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$8,993,262 of the City's bank balance of \$9,593,262 was exposed to custodial risk as discussed below, while \$600,000 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, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Securities 6 months or less</u>
STAR Ohio	\$ 663,271	\$ 663,271
U.S. Government Money Market Mutual Funds	<u>1,277,803</u>	<u>1,277,803</u>
	<u>\$ 1,941,074</u>	<u>\$ 1,941,074</u>

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.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

Credit Risk: The City's investments in 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.

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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 663,271	34.17%
U.S. Government Money Market Mutual Funds	<u>1,277,803</u>	<u>65.83%</u>
	<u>\$ 1,941,074</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, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 9,511,542
Investments	1,941,074
Cash on hand	<u>360</u>
Total	<u>\$ 11,452,976</u>

<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,995,860
Business-type activities	9,450,391
Private-purpose trust funds	<u>6,725</u>
Total	<u>\$ 11,452,976</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental Funds from:		
General Fund	\$	100,000
Nonmajor governmental fund		442,696
Electric fund		<u>102,731</u>
Total Transfers to Nonmajor Governmental Funds		<u>645,427</u>
Transfers to Sewer Fund From:		
General Fund		<u>210,797</u>
Total Transfers to Sewer Fund		<u>210,797</u>
Transfers to Electric Fund From:		
General Fund		<u>422,625</u>
Total Transfers to Electric Fund		<u>422,625</u>
Total Transfers		<u>\$1,278,849</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.

Transfers between governmental funds are eliminated on the government-wide statements. Transfers between governmental and business-type activities in the amount of \$583,359 appear on the statement of activities, which includes transfers of capital assets from governmental funds to business-type funds in the amount of \$52,668.

- B. Due from/to other funds consisted of the following at December 31, 2006, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Electric	<u>\$ 73,138</u>
Total Due To/From Other Funds		<u>\$ 73,138</u>

The balances resulted from the kilowatt hour tax receivable recorded in the Electric Fund which is due to the general fund. This is included in the internal balance amount on the statement of net assets.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2006 was 3.5 mills of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property tax	\$ 88,985,250
Public utility tangible personal property tax	2,027,070
Tangible personal property tax	<u>30,679,130</u>
Total assessed valuation	<u>\$ 121,691,450</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006. 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.

NOTE 7 - LOCAL INCOME TAX

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

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

Income tax proceeds are to be used to pay the cost of administering the tax. The first one percent of the income tax revenue is allocated to the General and Permanent Improvement capital projects funds, 55% 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 2006 was \$3,643,431 as reported in the fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2006, 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 basic financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2006, as well as intended to finance fiscal 2006 operations.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 8 – RECEIVABLES – (Continued)

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

Governmental Activities:

Income taxes	\$ 1,065,120
Real and other taxes	363,326
Accounts	26,796
Special assessments	231,245
Accrued interest	132,612
Due from other governments	251,056

Business-type Activities:

Real and other taxes	73,324
Accounts	2,217,296

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

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities and business-type activities have been restated due to errors and omissions of capital assets in the governmental activities, including a parcel of land and correction of accumulated depreciation for infrastructure, and restatement of infrastructure in the business-type activities due to a new appraisal of the City's waterlines during 2006. The effect on capital assets is as follows:

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 9 - CAPITAL ASSETS – (Continued)

	<u>Balance</u>	<u>Adjustments</u>	<u>Restated</u>
<u>Governmental Activities:</u>	<u>12/31/05</u>	<u>12/31/05</u>	<u>Balance</u>
	<u>12/31/05</u>	<u>12/31/05</u>	<u>12/31/05</u>
Land	\$ 932,596	\$ 297,908	\$ 1,230,504
Construction in progress	736,502		736,502
Land improvements	920,327		920,327
Buildings and improvements	2,694,232		2,694,232
Furniture, machinery and equipment	627,492		627,492
Vehicles	1,740,816		1,740,816
Infrastructure	3,058,487		3,058,487
Less: accumulated depreciation	<u>(4,624,746)</u>	<u>371,814</u>	<u>(4,252,932)</u>
Total	<u>\$ 6,085,706</u>	<u>\$ 669,722</u>	<u>\$ 6,755,428</u>
<u>Business-type Activities:</u>			
Land	\$ 576,820		\$ 576,820
Construction in progress	465,044		465,044
Land improvements	560,365		560,365
Buildings and improvements	11,603,963		11,603,963
Equipment - furniture	5,943,437		5,943,437
Vehicles	575,884		575,884
Infrastructure	40,206,879	\$ (2,278,883)	37,927,996
Less: accumulated depreciation	<u>(14,931,258)</u>	<u>84,718</u>	<u>(14,846,540)</u>
Total	<u>\$ 45,001,134</u>	<u>\$ (2,194,165)</u>	<u>\$ 42,806,969</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 9 - CAPITAL ASSETS – (Continued)

B. Capital asset activity for the year ended December 31, 2006 was as follows:

<u>Governmental Activities:</u>	<u>Restated Balance 12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,230,504		\$ (297,908)	\$ 932,596
Construction in progress	<u>736,502</u>	<u>\$ 433,025</u>	<u>(1,154,095)</u>	<u>15,432</u>
Total capital assets, not being depreciated	<u>1,967,006</u>	<u>433,025</u>	<u>(1,452,003)</u>	<u>948,028</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	920,327			920,327
Buildings and improvements	2,694,232	66,898		2,761,130
Equipment	627,492	147,530		775,022
Vehicles	1,740,816	556,150	(78,656)	2,218,310
Infrastructure	<u>3,058,487</u>	<u>796,202</u>		<u>3,854,689</u>
Total capital assets, being depreciated	<u>9,041,354</u>	<u>1,566,780</u>	<u>(78,656)</u>	<u>10,529,478</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(713,972)	(25,807)		(739,779)
Buildings and improvements	(1,522,116)	(68,841)		(1,590,957)
Equipment	(425,536)	(44,010)		(469,546)
Vehicles	(1,441,806)	(84,466)	51,716	(1,474,556)
Infrastructure	<u>(149,502)</u>	<u>(85,958)</u>		<u>(235,460)</u>
Total accumulated depreciation	<u>(4,252,932)</u>	<u>(309,082)</u>	<u>51,716</u>	<u>(4,510,298)</u>
<i>Total capital assets, being depreciated, net</i>	<u>4,788,422</u>	<u>1,257,698</u>	<u>(26,940)</u>	<u>6,019,180</u>
Governmental activities capital assets, net	<u>\$ 6,755,428</u>	<u>\$ 1,690,723</u>	<u>\$ (1,478,943)</u>	<u>\$ 6,967,208</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 2007 basic financial statements. Only infrastructure capital assets acquired or constructed in 2003 through 2006 are reflected in the basic financial statements for the fiscal year ended December 31, 2006.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 9 - CAPITAL ASSETS – (Continued)

	Restated Balance <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/06</u>
<u>Business-type Activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 576,820			\$ 576,820
Construction in progress	465,044	\$ 2,061,598	\$(1,733,764)	792,878
Total capital assets, not being depreciated	<u>1,041,864</u>	<u>2,061,598</u>	<u>(1,733,764)</u>	<u>1,369,698</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	560,365			560,365
Buildings and improvements	11,603,963	1,175,408		12,779,371
Equipment	5,943,437	99,638		6,043,075
Vehicles	575,884	59,619	(14,489)	621,014
Infrastructure	37,927,996	571,351		38,499,347
Total capital assets, being depreciated	<u>56,611,645</u>	<u>1,906,016</u>	<u>(14,489)</u>	<u>58,503,172</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(423,497)	(18,267)		(441,764)
Buildings and improvements	(4,157,660)	(385,439)		(4,543,099)
Equipment	(4,067,121)	(207,538)		(4,274,659)
Vehicles	(403,564)	(63,161)	14,489	(452,236)
Infrastructure	(5,794,698)	(653,910)		(6,448,608)
Total accumulated depreciation	<u>(14,846,540)</u>	<u>(1,328,315)</u>	<u>14,489</u>	<u>(16,160,366)</u>
Total capital assets, being depreciated, net	<u>41,765,105</u>	<u>577,701</u>		<u>42,342,806</u>
Business-type activities capital assets, net	<u>\$ 42,806,969</u>	<u>\$ 2,639,299</u>	<u>\$(1,733,764)</u>	<u>\$43,712,504</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 9 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to functions/programs of the governmental activities, and the funds of the business-type activities, of the City as follows:

<u>Governmental activities:</u>	
General government	\$ 10,045
Security of persons and property	91,114
Public health and welfare	10,617
Transportation	85,958
Community environment	73,599
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>37,749</u>
Total depreciation expense - governmental activities	<u>\$ 309,082</u>
<u>Business-type activities</u>	
Water	\$ 559,582
Sewer	504,972
Electric	<u>263,761</u>
Total depreciation expense - business-type activities	<u><u>\$ 1,328,315</u></u>

NOTE 10 - OTHER EMPLOYEE BENEFITS

Compensated Absences

City employees earn vacation leave at varying rates based upon length of service. In the case of death or retirement, an employee (or his estate) is paid for their unused vacation leave. The total obligation for vacation leave for the City as a whole amounted to \$28,811 at December 31, 2006. 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 \$33,638 at December 31, 2006. 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 120 hours per year. Upon retirement a nonunion employee is paid for forty percent of their accumulated sick leave up to a maximum equal 130 days or 1040 hours. A union employee is paid fifty percent of accumulated sick leave up to a maximum of 150 days or 1200 hours, except for fire department employees, who are part time and do not accumulate sick leave. The total obligation accrual for the City as a whole amounted to \$270,986 at December 31, 2006. 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, 2006
(Continued)**

NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE

During 2006, the City entered a capital lease agreement for two police cruisers. In a prior year, the City entered into four capital lease agreements for the acquisition of various 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 general fund.

Capital assets consisting of the two leases still outstanding at year-end have been capitalized in the amount of \$73,370 in governmental activities. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2006 was \$11,016, leaving a book value of \$62,354.

For the City, a corresponding liability was recorded in the government-wide financial statements in the amount of \$37,484. Principal payments in 2006 totaled \$42,966 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. Three of the leases entered during a prior year were retired during 2006.

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, 2006.

<u>Year Ending December 31,</u>	<u>General</u>
2007	\$ 23,702
2008	<u>16,766</u>
Total future minimum lease payments	40,468
Less: amount representing interest	<u>(2,984)</u>
Present value of net minimum lease payments	<u>\$ 37,484</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2006, the following changes occurred in the City's governmental activities long-term obligations:

Governmental Activities:	<u>Interest Rate</u>	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/06</u>	<u>Amounts Due in One Year</u>
<u>General Obligation Debt:</u>						
Woodland/Premier	2.00% -					
General Obligation Bonds	4.15%	\$ 715,000		\$ (100,000)	\$ 615,000	\$ 100,000
Vine/Main Street Improvements	1.70% -					
General Obligation Bonds	5.00%	3,130,000		(180,000)	2,950,000	190,000
Total general obligation debt		<u>\$ 3,845,000</u>		<u>\$ (280,000)</u>	<u>\$ 3,565,000</u>	<u>\$ 290,000</u>
<u>Other Obligations:</u>						
Police Pension Liability		\$ 77,657		\$ (1,361)	\$ 76,296	\$ 1,419
Fire Rescue Truck Loan		324,288		(45,495)	278,793	47,255
Capital Lease Obligation		32,800	\$ 47,650	(42,966)	37,484	21,616
Compensated Absences		120,644	48,168	(29,894)	138,918	30,091
Total other obligations		<u>\$ 555,389</u>	<u>\$ 95,818</u>	<u>\$ (119,716)</u>	<u>\$ 531,491</u>	<u>\$ 100,381</u>
Total governmental activities long-term obligations		<u>\$ 4,400,389</u>	<u>\$ 95,818</u>	<u>\$ (399,716)</u>	<u>\$ 4,096,491</u>	<u>\$ 390,381</u>

General Obligation Bonds: The Vine/Main Street general obligation bonds were issued on June 20, 2002 and are schedule to mature on December 1, 2022. The Woodland/Premier general obligation bonds were issued on February 28, 2002 and are scheduled to mature on December 1, 2012. 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, 2006, \$510,000 of this debt was still outstanding.

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 a nonmajor governmental fund (special revenue 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 with a scheduled maturity date of December 1, 2011. The principal payments are made from the general fund.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS – (Continued)

Compensated Absences: Compensated absences reported in the statement of net assets and will be paid from the fund from which the employee's salaries are paid, which is primarily the general fund.

The annual requirements amortize governmental activities long-term obligations outstanding as of December 31, 2006, are as follows:

<u>Year Ending</u>	<u>Vine/Main Street G.O. Bonds</u>			<u>Woodland/Premier G.O. Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 190,000	\$ 130,502	\$ 320,502	\$ 100,000	\$ 23,522	\$ 123,522
2008	195,000	123,852	318,852	100,000	20,223	120,223
2009	205,000	116,540	321,540	100,000	16,622	116,622
2010	210,000	108,442	318,442	100,000	12,822	112,822
2011	220,000	99,937	319,937	100,000	8,823	108,823
2012 - 2016	815,000	377,257	1,192,257	115,000	4,773	119,773
2017 - 2021	905,000	190,005	1,095,005			
2022	210,000	10,500	220,500			
Total	\$ 2,950,000	\$ 1,157,035	\$ 4,107,035	\$ 615,000	\$ 86,785	\$ 701,785

<u>Year Ending</u>	<u>Police Pension</u>			<u>Fire Rescue Truck Loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,419	\$ 3,228	\$ 4,647	\$ 47,255	\$ 9,781	\$ 57,036
2008	1,480	3,167	4,647	49,059	7,977	57,036
2009	1,544	3,103	4,647	50,982	6,054	57,036
2010	1,610	3,037	4,647	52,954	4,082	57,036
2011	1,679	2,968	4,647	55,003	2,033	57,036
2012 - 2016	9,542	13,693	23,235	23,540	225	23,765
2017 - 2021	11,776	11,458	23,234			
2022 - 2026	14,530	8,702	23,232			
2027 - 2031	17,930	5,303	23,233			
2032 - 2035	14,786	1,270	16,056			
Total	\$ 76,296	\$ 55,929	\$ 132,225	\$ 278,793	\$ 30,152	\$ 308,945

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS – (Continued)

B. During the fiscal year 2006, the following changes occurred in the City's business-type long-term liabilities:

Business-Type Activities:	<u>Interest Rate</u>	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/06</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%	\$ 2,865,000		\$ (250,000)	\$ 2,615,000	\$ 265,000
Total mortgage revenue bonds	3.0%-6.3%	2,865,000		(250,000)	2,615,000	265,000
<u>OWDA Loans</u>						
Sewer Plant OWDA Loan	3.90%	489,652		(21,632)	468,020	22,484
Sewer Sludge Dewatering Improvements	3.25%		\$ 538,342	(9,597)	528,745	19,828
Water System OWDA Loan	2.00%	1,229,222		(61,373)	1,167,849	62,607
Total OWDA Loans		1,718,874	538,342	(92,602)	2,164,614	104,919
<u>General Obligation Bonds</u>						
Water System General Obligation Bonds Series 1997	3.0%-6.30%	5,195,000		(70,000)	5,125,000	70,000
Water System Improvement Revenue Bonds	2.1%-4.65%	1,050,000		(130,000)	920,000	135,000
Electric System G.O. Refunding Bonds	2.0%-4.125%	3,550,000		(345,000)	3,205,000	355,000
Total general obligation bonds		9,795,000		(545,000)	9,250,000	560,000
<u>Other Obligations</u>						
Compensated Absences		170,639	32,358	(70,929)	132,068	32,358
Total other obligations		170,639	32,358	(70,929)	132,068	32,358
Total business-type activities long-term obligations		\$ 14,549,513	\$ 570,700	\$ (958,531)	14,161,682	\$ 962,277
Unamortized deferred charges on refundings					(342,423)	
Unamortized premium on bonds					15,743	
					<u>\$ 13,835,002</u>	

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

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

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS – (Continued)

In prior years, the City defeased Electric System Mortgage Revenue Bonds, Series B by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the City's financial statements. At December 31, 2006, \$3,580,000 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, 2006, was \$3,205,000.

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.

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, 2006, the City has outstanding borrowings of \$2,164,614.

Compensated Absences: Compensated absences reported in the statement of net assets and will be paid from the fund from which the employee's salaries are paid, which is primarily the water, sewer and electric funds.

The annual requirements to amortize enterprise fund obligations outstanding as of December 31, 2006, are as follows:

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 12 - LONG-TERM OBLIGATIONS – (Continued)

Year Ending	Electric Revenue Bonds			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 265,000	\$ 156,900	\$ 421,900	\$ 104,919	\$ 58,132	\$ 163,051
2008	280,000	141,000	421,000	107,713	55,338	163,051
2009	295,000	124,200	419,200	110,587	52,464	163,051
2010	315,000	106,500	421,500	113,545	49,506	163,051
2011	335,000	87,600	422,600	116,592	46,459	163,051
2012 - 2016	1,125,000	137,400	1,262,400	631,875	183,380	815,255
2017 - 2021				722,719	92,537	815,256
2022 - 2026				256,664	14,373	271,037
Total	\$ 2,615,000	\$ 753,600	\$ 3,368,600	\$ 2,164,614	\$ 552,189	\$ 2,716,803

Year Ending	Electric General Obligation Refunding Bonds			Water Improvement General Obligation Bonds		
	Principal	Interest	Interest	Principal	Interest	Interest
2007	\$ 355,000	\$ 118,289	\$ 473,289	\$ 205,000	\$ 292,706	\$ 497,706
2008	365,000	107,639	472,639	220,000	283,613	503,613
2009	380,000	96,689	476,689	230,000	273,518	503,518
2010	390,000	83,389	473,389	240,000	262,843	502,843
2011	405,000	68,754	473,754	255,000	251,266	506,266
2012 - 2016	1,310,000	107,907	1,417,907	700,000	1,127,695	1,827,695
2017 - 2021				675,000	976,375	1,651,375
2022 - 2026				860,000	787,625	1,647,625
2027 - 2031				1,100,000	546,250	1,646,250
2032 - 2036				1,405,000	239,125	1,644,125
2037				155,000	3,875	158,875
Total	\$ 3,205,000	\$ 582,667	\$ 3,787,667	\$ 6,045,000	\$ 5,044,891	\$ 11,089,891

C. Legal Debt Margin

The City's voted and unvoted legal debt margins were \$9,218,027 and \$3,133,455, respectively, at December 31, 2006.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 13 - LOANS TO/FROM OTHER FUNDS

The City had the following interfund loan in a nonmajor governmental fund for fiscal year 2006:

	Interest <u>Rate</u>	Issue <u>Date</u>	Balance <u>12/31/05</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/06</u>
Land Acquisition	3.00%	8/1/00	\$ 77,525		\$ (77,525)	

The interfund loan 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 nonmajor capital projects fund and the balance of the loan was repaid by the Permanent Improvement nonmajor capital projects fund during the year ending December 31, 2006.

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 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

For an occurrence prior to January 1, 2006, 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. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage 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 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 14 - RISK MANAGEMENT – (Continued)

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 reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

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 provides aggregate stop-loss coverage based upon the combined members' total insurable values. 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 2006 was \$1,901,127.

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.

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, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	<u>(15,875,741)</u>	<u>(15,994,168)</u>
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	<u>(863,163)</u>	<u>(1,068,245)</u>
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 14 - RISK MANAGEMENT – (Continued)

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$123,306 and \$119,987 for 2006 and 2005 respectively. This payable includes the subsequent year's contribution due if the City terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2004	\$120,164
2005	\$119,987
2006	\$123,306

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give 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 contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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 (latest information available), the pool had cash reserves of \$3,240,352 which, in the opinion of management, is adequate for any claims against the pool.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 14 - RISK MANAGEMENT – (Continued)

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 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 15 - PENSION PLANS – (Continued)

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004, were \$252,521, \$265,310 and \$220,458 respectively; 89 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$7,414 made by the City and \$4,871 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary to fund pension obligations while the City is required to contribute 19.50% for police officers and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$50,378 and \$44,440 for the year ended December 31, 2006 \$48,708 and \$42,967 for the year ended December 31, 2005 and \$58,361 and \$51,755 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 89% has been contributed for 2006.

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 qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS – (Continued)

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$123,516. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

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 Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 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 2006 that were used to fund postemployment benefits were \$33,168 for police and \$21,203 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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).
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	\$ (44,353)
Net adjustment for revenue accruals	(199,929)
Net adjustment for expenditure accruals	112,297
Net adjustment for other sources/uses	38,377
Adjustment for encumbrances	<u>71,011</u>
GAAP basis	<u>\$ (22,597)</u>

**CITY OF CLYDE
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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, 2006.

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, 2006 the principal outstanding aggregated \$9,599,204.

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Mary Taylor, CPA

Auditor of State

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, the 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 12, 2007, which was qualified do 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 Sewer and 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We also noted a certain internal control matter that we reported to the City's management in a separate letter dated December 12, 2007.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated December 12, 2007.

We intend this report solely for the information and use of the audit committee, management, and the City Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 12, 2007

**CITY OF CLYDE
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

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

FINDING NUMBER 2006-001

Material Weakness

Capital Assets

The City does not maintain an adequate detailed capital asset listing for infrastructure for its business-type activities, 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 Sewer and Electric Fund 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.

Officials' Response: We did not receive a response from Officials to the finding reported above.

**CITY OF CLYDE
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Material Weakness – Capital Assets	No	Repeated as Finding # 2006-001.
2005-002	Ohio Revised Code § 5705.41(D)(1) Failure to certify expenditures.	No	Improvement has been made reducing this to a management letter comment.



Mary Taylor, CPA
Auditor of State

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
JANUARY 3, 2008**