

**CITY OF TIFFIN  
SENECA COUNTY, OHIO**

***BASIC  
FINANCIAL STATEMENTS  
(Audited)***

For The Year Ended  
December 31, 2005





**Auditor of State  
Betty Montgomery**

Members of Council and Mayor  
City of Tiffin  
51 East Market Street  
Tiffin, Ohio 44833

We have reviewed the *Independent Auditors' Report* of the City of Tiffin, Seneca County, prepared by Julian and Grube, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Tiffin is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

August 14, 2006

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**CITY OF TIFFIN, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

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## Julian & Grube, Inc.

*Serving Ohio Local Governments*

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### Independent Auditors' Report

Members of Council and Mayor  
City of Tiffin  
51 East Market Street  
Tiffin, Ohio 44883

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 Tiffin, Ohio, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tiffin as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Julian & Grube, Inc.*

Julian & Grube, Inc.  
May 19, 2006

**City of Tiffin**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*

*Unaudited*

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The discussion and analysis of City of Tiffin's financial performance provides an overall view of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review notes to the basic financial statements, and the financial statements themselves, to enhance their understanding of the City's financial performance.

### **Financial Highlights**

Key financial highlights for 2005 are as follows:

- ❑ The City cut expenses in all departments that stopped the General Fund declining balances. The result was that a number of services that had been supplied by the City of Tiffin were removed.
- ❑ The General Fund equity in pooled cash and cash equivalents rose by \$135,382 to \$895,183.
- ❑ The difference in General Fund revenue in 2005 was a decline of only \$48,826.
- ❑ In November 2004 the voters approved a reallocation of the income tax allowing an additional 11.5% to be used for general expenditures. This allowed the City of Tiffin to restore in 2005 most of the cuts to the various departments.
- ❑ The Capital Improvement Fund was able to reduce its sewer development note by \$500,000.

### **Using this Annual Financial Report**

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole City, 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 non-major funds presented in total in one column. In the case of the City of Tiffin, the General and Capital Improvement Funds are by far the most significant funds.

### ***Reporting the City as a Whole***

#### *Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes 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 diminished. The cause of this is the result of many factors, some the City can control, some not. Non-controllable financial factors include the City's insurance costs, workers compensation costs, the economy, interest rates, and revenues or expenses determined by laws in Ohio restricting revenue growth, required programs and other factors.

**City of Tiffin**  
*Management's Discussion and Analysis*  
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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 public safety, public works, health, human services, conservation and recreation economic development, urban redevelopment, legislative and executive, and judicial.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The sewer fund is reported as business activities.

***Reporting the City's Most Significant Funds***

*Fund Financial Statements*

Fund financial statements 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 focus on the City's most significant funds. The City's major governmental funds are the General Fund and the Miami Street Assessment Bond Retirement.

***Governmental Funds*** Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance city operations. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

**The City as a Whole**

Recall that the Statement of Net Assets provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for 2005 compared to 2004:

**City of Tiffin**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*

*Unaudited*

Table 1  
 Net Assets

	Governmental Activities 2005	Business-Type Activities 2005	Total 2005	Total 2004
<b>Asset</b>				
Current and Other Assets	\$ 8,794,891	\$ 2,250,725	\$ 11,045,616	\$ 11,578,647
Capital Assets	19,496,763	13,249,978	32,746,741	32,183,864
Total Assets	<u>\$ 28,291,654</u>	<u>\$ 15,500,703</u>	<u>\$ 43,792,357</u>	<u>\$ 43,762,511</u>
<b>Liabilities</b>				
Long-term Liabilities	\$ 2,907,868	\$ 4,819,825	\$ 7,727,693	\$ 8,911,133
Other Liabilities	1,803,790	102,240	1,906,030	1,947,055
Total Liabilities	<u>4,711,658</u>	<u>4,922,065</u>	<u>9,633,723</u>	<u>10,858,188</u>
<b>Net Assets</b>				
Invested in Capital Assets Net of Debt	18,491,763	8,629,978	27,121,741	25,488,864
Restricted	883,450	-	883,450	758,109
Unrestricted (Deficit)	<u>4,204,783</u>	<u>1,948,660</u>	<u>6,153,443</u>	<u>6,657,350</u>
Total Net Assets	<u>\$ 23,579,996</u>	<u>\$ 10,578,638</u>	<u>\$ 34,158,634</u>	<u>\$ 32,904,323</u>

**City of Tiffin**  
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Table 2 shows the changes in net assets for the year 2005 compared to 2004:

Table 2  
Changes in Net Assets

	Governmental Activities 2005	Business-Type Activities 2005	Total 2005	Total 2004
<b>Revenue</b>				
Program Revenues:				
Charges for Services	\$ 477,500	\$ 2,842,131	\$ 3,319,631	\$ 3,390,509
Operating Grants	1,879,267	-	1,879,267	1,035,258
Capital Grants	-	-	-	-
General Revenue:				
Municipal Income Tax	6,624,191	-	6,624,191	6,740,419
Property Taxes	912,592	-	912,592	840,927
Special Assessments	145,612	10,756	156,368	102,213
Grants and Entitlements	829,340	-	829,340	998,674
Other	986,533	68,712	1,055,245	1,019,715
<b>Total Revenues</b>	<b>11,855,035</b>	<b>2,921,599</b>	<b>14,776,634</b>	<b>14,127,715</b>
<b>Program Expenses</b>				
General Government – Legislative	1,803,777	-	1,803,777	1,535,523
General Government – Judicial	533,495	-	533,495	512,233
Security of Persons and Property	6,204,845	-	6,204,845	6,060,091
Transportation	1,646,616	-	1,646,616	1,850,364
Public Health and Welfare	-	-	-	62,626
Economic Development and Assistance	37,434	-	37,434	132,862
Urban Redevelopment and Housing	121,832	-	121,832	333,122
Community Environment	336,797	-	336,797	29,951
Leisure Time Activities	464,681	-	464,681	409,659
Interest and Fiscal Charges	49,594	-	49,594	39,569
Sewer Districts	-	2,323,252	2,323,252	2,313,003
<b>Total Expenses</b>	<b>11,199,071</b>	<b>2,323,252</b>	<b>13,522,323</b>	<b>13,279,003</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 655,964</b>	<b>\$ 598,347</b>	<b>\$ 1,254,311</b>	<b>\$ 848,712</b>

***Governmental Activities***

To assure no deficit would occur by the end of 2005, management continued increasing revenue and reducing expenses for an increase in net assets from last year of \$405,599. Some of the reductions included:

- Reduced staff hours by 10% in the administrative and finance departments.
- Reduced the number employees in the police department by six and reduced clerk hours by 12.5%.

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- ❑ Eliminated the part-time EMT's and four fire/rescue personal in the fire department.
- ❑ Moved development funding from the General Fund.
- ❑ Removed all Capital purchases from the General Fund.
- ❑ Reduced the engineering staff by one employee.
- ❑ Paid two municipal court employees using court funds.
- ❑ Reduced park funding by \$0.15 million.
- ❑ Reduced street department funding by \$0.2 million.

This allowed some of the 2004 reductions to be restored in 2005. All employees whose hours had been reduced were stored. The court's employees were totally funded by the General Fund. Four positions were restored in the police department and two were restored in the fire department. The street department had 1% of the income tax restored and parks were given 4% of the income tax.

The City's largest source of governmental funding is the 1.75% income tax. In 2005 it provided 69.7% of the General Fund revenues. As determined by voters 10.0% of the income tax must be spent on capital projects. In 2005 there was a decline of \$80,006 in the income tax.

General Government Security comprises 55.4 percent of governmental program expenses. General Government Legislative and Executive comprise an additional 16.1 percent of governmental program expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government 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 entitlements.

Table 3  
 Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Net Cost of Services 2004
General Government – Legislative and Executive	\$ 1,803,777	\$ 1,770,085	\$ 1,535,523
General Government – Judicial	533,495	414,590	402,731
Security of Persons and Property	6,204,845	5,615,483	5,515,982
Transportation	1,646,616	857,784	1,045,461
Public Health and Welfare	-	-	62,626
Economic Development and Assistance	37,434	37,434	132,862
Urban Redevelopment and Housing	121,832	(196,323)	333,122
Community Environment	336,797	(134,167)	29,951
Leisure Time Activities	464,681	427,824	373,232
Interest and Fiscal Charges	49,594	49,594	39,569
<b>Total Expenses</b>	<b>\$ 11,199,071</b>	<b>\$ 8,842,304</b>	<b>\$ 9,471,059</b>

**City of Tiffin**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*

*Unaudited*

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The dependence upon tax revenues for governmental activities is apparent. Over 59 percent of public safety and other human services are supported through taxes and other general revenues. The community, as a whole, is by far the primary support for the City.

***Business-Type Activities***

Business-type activities include the sewer fund. This program had revenues of \$2,918,921 and expenses of \$2,323,252 million for the year 2005.

**The City's Funds**

The City's largest major fund is the general fund. This fund is accounted for using the modified accrual basis of accounting. The general fund had total revenues of \$9,690,178 and expenditures of \$8,268,814 with income tax transfers of \$1,250,903 for an increase in the fund balance of \$170,461.

***General Fund Budgeting Highlights***

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of the year 2005 the City amended its General Fund budget numerous times. None of the amendments were significant. The City uses department based budgeting and the budgeting systems are designed to tightly control total department budgets but provide flexibility for site management.

The General Fund, actual cash revenue was \$9,615,378, which exceeded the original budget estimate of \$9,504,370. However, municipal income tax was down \$80,006 but other revenue, such as, property tax, State Local Government Fund revenues, interest income, and estate taxes made up for this shortage to balance out the budgeted revenue.

The City's 2005 ending unobligated General Fund cash balance was \$304,712 above the final budgeted amount of \$292,703.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of the 2005 the City had \$32,746,741 invested in land, buildings, equipment, vehicles, and infrastructure; of which \$19,496,763 was in governmental activities. Table 4 shows the 2005 balances.

**City of Tiffin**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*

*Unaudited*

Table 4  
 Capital Assets at December 31  
 (Net of Depreciation)

	Governmental Activities 2005	Business-Type Activities 2005	Total 2005	Total 2004
Land	\$ 3,188,030	\$ 241,940	\$ 3,429,970	\$ 3,429,970
Buildings and Improvements	2,417,128	2,510,350	4,927,478	5,107,477
Equipment & Machinery	884,459	118,861	1,003,320	991,842
Furniture & Fixtures	105,555	8,453	114,008	112,789
Vehicles	1,628,409	244,236	1,872,645	1,650,617
Infrastructure	<u>11,273,181</u>	<u>10,126,138</u>	<u>21,399,319</u>	<u>20,891,174</u>
Totals	<u>\$ 19,496,762</u>	<u>\$ 13,249,978</u>	<u>\$ 32,746,740</u>	<u>\$ 32,183,869</u>

The primary increase occurred in infrastructure, which include construction projects for street rebuilding combined sewer separation, storm sewers and street surfacing. Other areas were held back because of budget restraints.

**Debt**

As of December 31, 2005 the City had \$5,625,000 in bonds and notes outstanding, \$3,245,000 due within one year. Table 5 summarizes bonds and notes outstanding.

Table 5  
 Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004	Business-Type Activities 2005	Business-Type Activities 2004
General Obligation Bonds:				
Improvement	\$ -	\$ -	\$ 2,620,000	\$ 3,065,000
Notes Payable	500,000	600,000	2,000,000	2,500,000
Sanitary Sewer Improvement	<u>505,000</u>	<u>530,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,005,000</u>	<u>\$ 1,130,000</u>	<u>\$ 4,620,000</u>	<u>\$ 5,565,000</u>

The city maintains an A3 bond rating.

**For the Future**

The City is presently financially stable. As the preceding information shows, the City heavily depends on its municipal income tax. With the requirement that 10.0% of this tax be used for capital purchases, the city has gained flexibility to operate its General Fund prudently. It will need to operate below the pre-2005 level but can provide basic services again to its citizens. Capital funding has been cut to one-half of previous levels, which will have a greater impact in 2006 and beyond. Any essential capital expenditure can still be funded using the General Fund.

**City of Tiffin**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*

*Unaudited*

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In conclusion, the City has committed itself to financial responsibility for future years. In addition, the City's systems of budgeting and internal controls are well regarded. All of the City's financial abilities will be needed to meet the challenges of the future.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, 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 information contact Deb Souder, Director of Finance, P.O. BOX 455, Tiffin, Ohio 44883-0455. Or e-mail at [financedirector@tiffinohio.com](mailto:financedirector@tiffinohio.com) or telephone at (419) 448- 5403.

City of Tiffin

Statement of Net Assets  
December 31, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 3,170,151	\$ 1,389,122	\$ 4,559,273
Receivables:			
Taxes	2,665,405	-	2,665,405
Accounts	170,053	758,523	928,576
Special Assessments	825,222	-	825,222
Accrued Interest	24,235	16,356	40,591
Due from Other Governments	1,633,920	-	1,633,920
Prepaid Items	112,788	17,264	130,052
Material and Supplies Inventory	58,164	16,262	74,426
Notes Receivable	134,953	-	134,953
Unamortized Bond Issue Costs	-	53,198	53,198
Capital assets, No Depreciation	3,188,030	241,940	3,429,970
Capital assets, Net of Depreciation	<u>16,308,733</u>	<u>13,008,038</u>	<u>29,316,771</u>
 Total Assets	 <u>28,291,654</u>	 <u>15,500,703</u>	 <u>43,792,357</u>
 <u>Liabilities:</u>			
Accounts Payable	75,482	8,447	83,929
Accrued Wages	209,073	31,886	240,959
Due to Other Governments	487,224	46,559	533,783
Deferred Revenue	1,021,775	-	1,021,775
Accrued Interest Payable	10,236	15,348	25,584
Long-Term Liabilities			
Due within one year	1,177,764	2,543,718	3,721,482
Due in more than one year	<u>1,730,104</u>	<u>2,276,107</u>	<u>4,006,211</u>
 Total Liabilities	 <u>4,711,658</u>	 <u>4,922,065</u>	 <u>9,633,723</u>
 <u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	18,491,763	8,629,978	27,121,741
Restricted for:			
Capital Projects	25,000	-	25,000
Other Purposes	858,450	-	858,450
Unrestricted (Deficit)	<u>4,204,783</u>	<u>1,948,660</u>	<u>6,153,443</u>
 Total Net Assets	 <u>\$ 23,579,996</u>	 <u>\$ 10,578,638</u>	 <u>\$ 34,158,634</u>

See accompanying notes to the basis financial statements.

Statement of Activities  
For the Year Ended December 31, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<b>Primary government:</b>						
Governmental Activities:						
General Government:						
Legislative and Executive	\$ (1,803,777)	\$ 33,692	\$ -	\$ (1,770,085)		\$ (1,770,085)
Judicial	(533,495)	-	118,905	(414,590)		(414,590)
Security of Persons and Property	(6,204,845)	395,279	194,083	(5,615,483)		(5,615,483)
Transportation	(1,646,616)	2,000	786,832	(857,784)		(857,784)
Community Environment	(336,797)	9,672	461,292	134,167		134,167
Leisure Time Activities	(464,681)	36,857	-	(427,824)		(427,824)
Economic Development and Assistance	(37,434)	-	-	(37,434)		(37,434)
Urban Redevelopment and Housing	(121,832)	-	318,155	196,323		196,323
Interest and Fiscal Charges	(49,594)	-	-	(49,594)		(49,594)
<b>Total Governmental Activities</b>	<b>(11,199,071)</b>	<b>477,500</b>	<b>1,879,267</b>	<b>(8,842,304)</b>		<b>(8,842,304)</b>
Business-Type Activities:						
Sewer	(2,323,252)	2,842,131	-		\$ 518,879	518,879
<b>Total Business-Type Activities</b>	<b>(2,323,252)</b>	<b>2,842,131</b>	<b>-</b>	<b>-</b>	<b>518,879</b>	<b>518,879</b>
<b>Total primary government</b>	<b>\$ (13,522,323)</b>	<b>\$ 3,319,631</b>	<b>\$ 1,879,267</b>	<b>(8,842,304)</b>	<b>518,879</b>	<b>(8,323,425)</b>
General revenues:						
Taxes:						
Municipal Income Tax				6,624,191		6,624,191
Property Taxes, levied for General Purposes				912,592		912,592
Special Assessments				145,612	10,756	156,368
Grants and contributions not restricted to specific programs				829,340	-	829,340
Unrestricted investment earnings				310,787	66,034	376,821
Transfers (Net)				(2,678)	2,678	-
Miscellaneous				678,424	-	678,424
<b>Total General Revenues</b>				<b>9,498,268</b>	<b>79,468</b>	<b>9,577,736</b>
Change in Net Assets				655,964	598,347	1,254,311
Net Assets - January 1, 2005				22,924,032	9,980,291	32,904,323
Net Assets - December 31, 2005				<b>\$ 23,579,996</b>	<b>\$ 10,578,638</b>	<b>\$ 34,158,634</b>

See accompanying notes to the basic financial statements.

	General	Miami Street Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds	Total Governmental Fund Balances	
					\$ 4,016,166	
					<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
<b>Assets and Other Debits</b>					Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
<b>Assets:</b>					19,496,763	
Equity in Pooled Cash and Cash Equivalents	\$ 895,183	\$ 27,896	\$ 2,247,072	\$ 3,170,151	Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
Receivables:						
Taxes	2,498,901	-	166,504	2,665,405	Municipal Income Taxes \$ 808,802	
Accounts	150,313	-	19,740	170,053	Delinquent Property Taxes 62,875	
Special Assessments	-	702,436	122,786	825,222	Special Assessments 825,222	
Accrued Interest	22,021	-	2,214	24,235	Grants 1,269,304	
Due from Other Governments	649,937	-	983,983	1,633,920	Accrued Interest Receivable 18,968	
Prepaid Items	68,412	-	44,376	112,788		
Material and Supplies Inventory	13,049	-	45,115	58,164		
Notes Receivable	-	-	134,953	134,953		
<b>Total Assets</b>	<b>\$ 4,297,816</b>	<b>\$ 730,332</b>	<b>\$ 3,766,743</b>	<b>\$ 8,794,891</b>	Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	
<b>Liabilities:</b>					Accrued Interest Payable \$ (10,236)	
Accounts Payable	\$ 43,378	\$ -	\$ 32,104	\$ 75,482	Compensated Absences Payable (1,032,329)	
Accrued Wages	184,853	-	24,220	209,073	Post Closure Landfill Payable (870,539)	
Due to Other Governments	443,225	-	43,999	487,224	Special Assessment Bonds Payable (505,000)	
Deferred Revenue	2,276,505	702,436	1,028,005	4,006,946	Sanitary Improvement Note Payable (500,000) (2,918,104)	
<b>Total Liabilities</b>	<b>2,947,961</b>	<b>702,436</b>	<b>1,128,328</b>	<b>4,778,725</b>	<b>Net Assets of Governmental Activities \$ 23,579,996</b>	
<b>Fund Balances:</b>						
Reserved for Capital Improvement	-	-	25,000	25,000		
Reserved for Notes Receivable	-	-	134,953	134,953		
Reserved for Prepaid Items	68,412	-	44,376	112,788		
Reserved for Encumbrances	259,518	-	405,815	665,333		
Reserved for Inventory	13,049	-	45,115	58,164		
Unreserved, Reported in:						
General Fund	1,008,876	-	-	1,008,876		
Special Revenue Funds	-	-	1,619,808	1,619,808		
Debt Service Fund	-	27,896	43,309	71,205		
Capital Projects Funds	-	-	314,106	314,106		
Permanent Funds	-	-	5,933	5,933		
<b>Total Fund Balances</b>	<b>1,349,855</b>	<b>27,896</b>	<b>2,638,415</b>	<b>4,016,166</b>		
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,297,816</b>	<b>\$ 730,332</b>	<b>\$ 3,766,743</b>	<b>\$ 8,794,891</b>		

See accompanying notes to the Basic Financial Statements.

City of Tiffin

Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2005

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities

	General	Miami Street Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds	Net Change in Fund Balances-Total Governmental Funds	
					\$	(97,105)
					Amounts reported in governmental activities in the statement of activities are different because:	
Revenues:					Governmental funds report capital outlays as expenditures.	
Municipal Income Tax	\$ 6,757,640	\$ -	\$ -	\$ 6,757,640	However, in the statement of activity the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays was over (under) depreciation in the current period.	
Property and Other Taxes	906,925	-	151,312	1,058,237	Capital Outlay	\$ 1,410,357
Intergovernmental	1,087,673	-	1,138,888	2,226,561	Depreciation	(1,105,563)
Investment Income	84,187	-	217,404	301,591		304,794
Licenses and Permits	28,420	-	-	28,420		
Fines and Forfeitures	364,802	-	240,437	605,239		
Special Assessments	-	56,496	89,116	145,612		
Charges for Services	410,223	-	38,857	449,080	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Miscellaneous	50,308	-	74,614	124,922		
Total Revenue	9,690,178	56,496	1,950,628	11,697,302	Municipal Income Taxes	\$ (133,449)
Expenditures:					Property Taxes	(2,271)
Current:					Grants	338,672
General Government:					Interest On Investments	9,196
Legislative and Executive	-	-	31,587	31,587	Special Assessments	(51,737)
Judicial	-	-	119,264	119,264		160,411
Security of Persons and Property	-	-	711,232	711,232	Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds are (over) under payments.	
Public Health and Welfare	1,873,113	-	-	1,873,113	Proceed of Debt	\$ (500,000)
Transportation	402,325	1,183	1,486,373	1,889,881	Principal Payments	891,972
Community Environment	5,796,909	-	157,392	5,954,301		391,972
Leisure Time Activities	-	-	416,993	416,993		
Economic Development	196,467	-	40,645	237,112		
Urban Redevelopment & Housing	-	-	121,832	121,832		
Debt Service:						
Principal Retirement	-	25,000	866,972	891,972		
Interest and Fiscal Charges	-	27,568	16,874	44,442		
Total Expenditures	8,268,814	53,751	3,969,164	12,291,729	In the statement of activities, interest is accrued on on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(5,152)
Excess of Revenues Over (Under) Expenditures	1,421,364	2,745	(2,018,536)	(594,427)	Some expenses reported in the statment of activities, such as compensated absences payable do not require the use of current financial resources and therefore are not reported as expenditures governmental funds.	
Other Financing Sources (Uses):					Compensated Absences	\$ (80,371)
Proceeds of Notes	-	-	500,000	500,000	Inventory Change	(18,585)
Transfer from other funds	-	-	1,442,743	1,442,743		(98,956)
Transfer to other Funds	(1,250,903)	-	(194,518)	(1,445,421)		
Total Other Sources (Uses)	(1,250,903)	-	1,748,225	497,322	Change in Net Assets of Governmental Activities	\$ 655,964
Net Change in Fund Balance	170,461	2,745	(270,311)	(97,105)		
Fund Balances (Deficit) at Beginning of Year	1,174,848	25,151	2,931,857	4,131,856		
Increase (Decrease) in Reserve for Inventory	4,546	-	(23,131)	(18,585)		
Fund Balances (Deficits) End of Year	\$ 1,349,855	\$ 27,896	\$ 2,638,415	\$ 4,016,166		

See accompanying notes to the Basic Financial Statements.

City of Tiffin  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP) and Actual  
General Fund

For the Year Ended December 31, 2005

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Municipal Income Taxes	\$ 6,900,000	\$ 6,900,000	\$ 6,594,651	\$ (305,349)
Property Taxes	837,800	837,800	860,658	22,858
Intergovernmental	937,770	1,575,770	1,144,558	(431,212)
Investment Income	50,000	50,000	81,640	31,640
Fines and Forfeitures	300,000	300,000	359,781	59,781
Licenses and Permits	28,700	28,700	28,420	(280)
Charges for Services	313,600	313,600	376,733	63,133
Other	136,500	270,500	168,937	(101,563)
Total Revenue	<u>9,504,370</u>	<u>10,276,370</u>	<u>9,615,378</u>	<u>(660,992)</u>
Expenditures:				
Current:				
General Government:				
Legislative and Executive	1,753,995	2,628,947	1,945,898	683,049
Judicial	461,080	461,452	402,820	58,632
Security of Persons and Property	6,157,050	6,151,684	5,980,436	171,248
Public Health and Welfare	60,900	-	-	-
Transportation	18,000	-	-	-
Community Environment	41,410	204,990	198,017	6,973
Economic Development	97,350	-	-	-
Total Expenditures	<u>8,589,785</u>	<u>9,447,073</u>	<u>8,527,171</u>	<u>919,902</u>
Excess of Revenues Over (Under) Expenditures	<u>914,585</u>	<u>829,297</u>	<u>1,088,207</u>	<u>258,910</u>
Other Financing Sources (Uses):				
Operating Transfers - Out	<u>(1,035,000)</u>	<u>(1,296,705)</u>	<u>(1,250,903)</u>	<u>45,802</u>
Total Other Sources (Uses)	<u>(1,035,000)</u>	<u>(1,296,705)</u>	<u>(1,250,903)</u>	<u>45,802</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(120,415)	(467,408)	(162,696)	304,712
Fund Balances (Deficit) at Beginning of Year	532,458	532,458	532,458	-
Prior Year Encumbrances Appropriated	<u>227,653</u>	<u>227,653</u>	<u>227,653</u>	<u>-</u>
Fund Balances (Deficit) at End of Year	<u>\$ 639,696</u>	<u>\$ 292,703</u>	<u>\$ 597,415</u>	<u>\$ 304,712</u>

See accompanying notes to the Basic Financial Statements.

City of Tiffin

Statement of Net Assets  
 Proprietary Funds  
 December 31, 2005

	Business Type Activities- Enterprise Fund
	<u>Sewer</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 1,389,122
Receivables:	
Accounts	758,523
Accrued Interest	16,356
Prepaid Items	17,264
Material and Supplies Inventory	16,262
Unamortized Bond Issue Costs	<u>53,198</u>
 Total Current Assets	 <u>2,250,725</u>
Capital Assets, (No Depreciation)	241,940
Capital Assets, (Net of Accumulated Depreciation)	<u>13,008,038</u>
 Total Assets	 <u>\$ 15,500,703</u>
<u>Liabilities:</u>	
Accounts Payable	\$ 8,447
Accrued Wages	31,886
Compensated Absences Payable	78,718
Due to Other Governments	46,559
Accrued Interest Payable	15,348
Notes Payable	<u>2,465,000</u>
 Total Current Liabilities	 <u>2,645,958</u>
<u>Long-Term Liabilities:</u>	
Compensated Absences Payable	121,107
General Obligation Bonds Payable	<u>2,155,000</u>
 Total Long-Term Liabilities	 <u>2,276,107</u>
 Total Liabilities	 <u>4,922,065</u>
<u>Net Assets:</u>	
Invested in capital assets, net of related debt	8,629,978
Unrestricted	<u>1,948,660</u>
 Total Net Assets	 <u>\$ 10,578,638</u>

See accompanying notes to the basic financial statements.

City of Tiffin

Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Fund

For the Year Ended December 31, 2005

	Business-Type Activities Enterprise Funds
	<u>Sewer</u>
Operating Revenues:	
Charges for Services	\$ 2,840,377
Other Operating Revenues	<u>714</u>
Total Operating Revenues	<u>2,841,091</u>
Operating Expenses:	
Personal Services	1,170,171
Contractual Services	301,271
Materials and Supplies	96,886
Other Operating Expense	22,959
Depreciation	<u>543,347</u>
Total Operating Expenses	<u>2,134,634</u>
Operating Income	<u>706,457</u>
Non-Operating Revenues (Expenses):	
Tap-In Fees	1,040
Special Assessments	10,756
Interest Income	66,034
Interest and Fiscal Charges	<u>(188,618)</u>
Total Non-Operating Revenues (Expenses)	<u>(110,788)</u>
Income before Transfers:	
Transfers from Other Funds	1,266,049
Transfers to Other Funds	<u>(1,263,371)</u>
Change in Net Assets	598,347
Total Net Assets at Beginning of Year	<u>9,980,291</u>
Total Net Assets at End of Year	<u>\$ 10,578,638</u>

See accompanying notes to the basic financial statements.

City of Tiffin  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended December 31, 2005

	Business Type Activities- Enterprise Fund
	<u>Sewer</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities:</b>	
Cash Received for Services	\$ 2,847,149
Cash Received from Other Operating Sources	714
Cash Payments to Suppliers for Goods and Services	(425,733)
Cash Payments to Employees for Services	<u>(1,092,309)</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,329,821</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Net Transfers from Other Funds	2,678
Special Assessment	10,756
Tap-In Fees	<u>1,040</u>
Net Cash Provided by Noncapital Financing Activities	<u>14,474</u>
<b>Cash Flows from Capital &amp; Related Financing Activities:</b>	
Proceeds from Notes	2,000,000
Principal Payments - Bonds	(2,945,000)
Payments for Capital Acquisitions	(801,430)
Interest Paid	<u>(180,458)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,926,888)</u>
<b>Cash flows from Investing Activities:</b>	
Interest on Investments	<u>57,910</u>
Net Cash Provided by Investing Activities:	<u>57,910</u>
Net (Decrease) in Cash and Cash Equivalents	(524,683)
Cash and Cash Equivalents Beginning of Year	<u>1,913,805</u>
Cash and Cash Equivalents End of Year	<u>\$ 1,389,122</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>	
Operating Income (Loss)	\$ 706,457
Adjustments:	
Net Cash from Operating Activities:	
Depreciation Expense	543,347
(Increase) Decrease in Assets:	
Accounts Receivable	6,772
Prepaid Items	141
Materials and Supplies Inventory	(8,233)
Increase (Decrease) in Liabilities:	
Accounts Payable	3,475
Accrued Wages	(719)
Compensated Absences Payable	73,161
Due to Other Governments	<u>5,420</u>
Total Adjustments	<u>623,364</u>
Net Cash Provided by Operating Activities	<u>\$ 1,329,821</u>

See accompanying notes to the basic financial statements.

City of Tiffin

Statement of Fiduciary Net Assets  
Fiduciary Funds

December 31, 2005

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,828
Cash and Cash Equivalents: In Segregated Accounts	134,496
Accounts Receivable	<u>1,586</u>
Total Assets	<u><u>\$ 138,910</u></u>
 <u>Liabilities:</u>	
Undistributed Monies	<u>\$ 138,910</u>
Total Liabilities	<u><u>\$ 138,910</u></u>

See accompanying notes to the basic financial statements.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**NOTE 1 -- DESCRIPTION OF THE ENTITY AND REPORTING ENTITY**

The City of Tiffin (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 was incorporated as a village in 1835 and became a City under the laws of the State of Ohio in 1850. In 1977 a voter-approved Charter became effective. The Mayor and council are elected by separate ballot from the municipality at large for four-year terms. The Mayor is not a member of council and can only approve or veto council ordinances and resolutions. The Mayor appoints the City Manager. The City Manager appoints all departments managers of the City.

**Reporting Entity** A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The City provides police and fire protection within its boundaries, and ambulance protection and fire assistance to adjacent townships by mutual agreement contracts. The City provides basic utilities in the form of wastewater treatment. The City constructs and maintains streets and sidewalks within the City. The City also operates and maintains a park and recreation system.

Component units are legally separate organizations for the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Components units may also include organizations that fiscally dependent on the City in that the City approves their budget, the issuance of their debt or the levying of their taxes. The City has no component units.

The City has not included the City of Tiffin School District, the Tiffin-Seneca Public Library, the Conner Memorial Commission, and the Weller Memorial Commission as it has no control over these operations and are autonomous entities.

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Tiffin, Ohio (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under the provisions of GASB No. 20 the city has elected not to apply Financial Accounting Standards Board Statements and interpretations issued after November 30, 1989 to its proprietary activities. Election of this approach to accounting for proprietary activities by the city has required no change from prior years. The more significant of the City's accounting policies are described below:

**A. BASIS OF PRESENTATION**

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

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

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 the fiduciary funds. The statements distinguish between those activities of the city that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each program of the City's governmental activities. 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 and grants and contributions that restricted to meeting the operational or capital requirements of 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 function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City programs 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 a more detail level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

**B. FUND ACCOUNTING**

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds focus 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 be 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 City's major governmental funds are the general and capital improvement funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balances is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Miami Street Assessment Bond Retirement Fund - The Debt Service fund is used to account for special assessments collected by the county auditor from residents for retirement of Miami Street special assessments bonds for a drainage project.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

The other governmental funds of the City are for grants and other resources, debt service, and capital projects of the City whose uses are restricted to a particular purpose.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The city presently does not have an internal service fund. The City's only proprietary major fund is the sewer fund:

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

Sewer Fund - This fund accounts for the financial transactions related to the water treatment service operations of the City.

Fiduciary Funds

Fiduciary funds 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. The city's only trust fund (Oakley Park Trust Fund) is a permanent trust fund recorded as part of the Governmental Type Activities because the fund supports the City's parks. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for funds maintained by the Municipal Court, State Patrol transfer account, unclaimed monies and payroll income tax and tax increment financial payments collected on behalf and due to other governments.

**C. MEASUREMENT FOCUS**

Government Wide Financial Statements

The Government-wide Financial Statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City as included on the Statement of Net Assets.

Fund Financial Statements

All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and others 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 statements for governmental funds.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

Like the government-wide statements, all proprietary fund types 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 net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**D. 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 fiduciary funds also 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used of the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available as an advance, interest, grants, and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance 2006 operations, have been recorded as deferred revenue. Special assessments and grants and entitlements received before the eligibility requirements are meant 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.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. BUDGET**

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund level. Although the legal level of budgetary control was established at the object level within each function for the general fund and at the fund level of expenditures for all other funds, the City has elected to present budgetary statement comparisons at the fund and function level of expenditures. Line item appropriations may be transferred between the accounts with the approval of the City Manager, Finance Director and respective department head. Council must approve any revisions in the budget that alter total fund appropriations. The following are the procedures used by the City in establishing the budgetary date reported in the basis financial statements:

**Tax Budget:**

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

**Estimated Resources:**

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing 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 appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
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**Appropriations:**

A temporary appropriation resolution to control expenditures may be passed on or about January 1 of each year for the period of January 1 to March 31. An annual appropriation resolution must be passed by April 1 of each year for the period January 1 to December 31. The appropriation resolution fixes spending authority at the fund, department, and object level. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. Council legally enacted several supplemental appropriation ordinances during the year. The budget figures which appear in the statement of budgetary comparisons present the original and final appropriation amounts including all amendments and modifications.

**Encumbrances:**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures.

**Lapsing of Appropriations:**

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and need not be re-appropriated.

**F. CASH AND INVESTMENTS**

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund balance integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents" on the combined balance sheet.

During 2005, investments were limited to repurchase agreements.

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during year 2005 amounted to \$84,187.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the balance sheet as "Cash in Segregated Accounts" since they are not required to be deposited into the City's treasury.

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

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**G. INVENTORIES**

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

On the 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 consist of expendable supplies held for consumption. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

**H. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

**I. 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 government 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 \$500. Public domain ("infrastructure") general capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been capitalized under new requirements of the Governmental Accounting Standards Board. 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.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful live 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>
Land Improvements	30 years	30 years
Buildings and Improvements	40 years	40 years
Furniture and Equipment	8-20 years	8-20 years
Vehicles	3-5 years	3-5 years
Infrastructure	80 years	80 years

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**J. INTERFUND BALANCES**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. The City had no interfund receivables/payable at December 31, 2005.

**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 attributed to services already rendered and are not contingent on a specific event that is outside the control of the City.

The City reports compensated absences in accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, "Accounting for Compensated Absences." Vacation benefits is accrued if as a liability as the benefits are earned if the employees' rights to payment are attributable to services already rendered; and 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. These amounts are recorded in the account "Compensated absences" in the fund from which the employees are paid.

Sick leave benefits are accrued using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end taking into consideration any limits specified in the City's termination policy. The City records a liability for all accumulated unused vacation time when earned for all employees. The City records a liability for unused sick leave for all employees who are older than fifty (50 years) old or greater with at least ten (10) years of accumulated service.

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

**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, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they will be paid with current, expendable, available resources. In general, payments made within thirty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**M. FUND BALANCE RESERVES**

The city reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, capital improvement, and notes receivables.

**N. 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 borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**O. OPERATING REVENUES AND EXPENSE**

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

**P. CONTRIBUTION OF CAPITAL**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grant or outside contributions of resources restricted to capital acquisition and construction. The City had no contributions of capital for the year ended December 31, 2005.

**Q. INTERFUND ACTIVITY**

Transfers between governmental and business-type activities on the governmental-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 non-operating revenues/expense in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**R. 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 Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

**CITY OF TIFFIN  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**S. ESTIMATES**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**T. BOND DISCOUNTS, PREMIUMS AND INSURANCE COSTS**

Material discounts, premiums, and issuance costs are reported as deferred charges and amortized over the life of the bond using the straight-line method. Any material discounts or premiums [1] are shown as additions to, or deductions from, the account of the bond liability, [2] are amortized using the straight-line method, and [3] are reflected as interest income or expense in the Statement of Activities.

**NOTE 3 -- BUDGET BASIS OF ACCOUNTING**

While 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 and described above is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balances, Budget and Actual, 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP).

Adjustments necessary to convert the results of operations at the end of the year on the Budget basis to the GAAP basis are as follows:

<b><u>Net Change in Fund Balance</u></b>	<b><u>General Fund</u></b>
Budget Basis	\$ (162,696)
Adjustments:	
Revenue Accruals:	
Accrued 2004, Received in Cash 2005	(887,733)
Accrued 2005, Not yet Received in Cash	962,533
Expenditure Accruals	
Accrued 2005, Not yet Paid in Cash	481,499
Accrued 2004, Paid in Cash 2005	(520,910)
Encumbrances	<u>297,768</u>
<b><u>GAAP Basis</u></b>	<b><u>\$ 170,461</u></b>

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**NOTE 4 -- ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2005, the City has implemented GASB Statement No. 40 "Deposit and Investment Risk Disclosures", and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries".

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

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 4.

**NOTE 5 -- DEPOSITS AND INVESTMENTS**

**Deposits**

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

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

1. United State Treasury bills, bonds, notes 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 State;
2. Bonds, notes, debentures, or any other obligation or security 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;

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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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 (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25 percent of the interim monies available for investment at any one time for a period not to exceed one hundred eighty days.

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 County, 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 the delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer 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.

*On Hand:* At year-end \$310 was on hand throughout the City in the form of drawer change and petty cash.

*Deposits:* At year-end, the carrying amount of the City's deposits was \$4,142,658. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$482,344 of the City's bank balance of \$4,328,162 was covered by the Federal Deposit Insurance Corporation, while \$3,845,818 was exposed to custodial risk as discussed below.

*Custodial credit risk:* is the risk that, in the event of bank failure, the City's deposits may not be returned. Protection of the City's cash and deposits is provided by the Federal Deposit Insurance corporation as well as qualified securities pledged by the institution holding the assets. By law, all financial institutions must collateralize all public deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent 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 the 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.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
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*Investments:* As of December 31, 2005, the City had the following investment and maturities:

	<b>Maturity</b>	<b>Fair Value</b>
Bank Repurchase	30 day or less	\$ 553,629
Total Investments		\$ 553,629

*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.

*Custodial of Credit Risk:* For an investment, custodial risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party of the City's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investments counterparty, not in the name of the City.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement - Union Bank	\$ 553,629	100.00
	\$ 553,629	100.00

**NOTE 6 -- RECEIVABLES**

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, accrued interest on investments, accounts (billings for utility service), and notes receivable. No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

**Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) is for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

The full tax rate for all City operations for the year ended December 31, 2005, was \$4.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$ 157,872,970
Commercial/Industrial	54,852,350
Public Utility Property - Real	27,350
Public Utility Tangible	16,045,830
Tangible Personal Property	<u>37,276,832</u>
Total Valuation	<u>\$ 266,075,332</u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Tiffin. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2005 operations. The receivable is therefore offset by deferred revenue.

**Income Taxes**

The City levies a 1.75 percent income tax on substantially all income earned within the City. In addition, City residents employed in municipalities having an income tax less than 1.75 percent must pay the difference to the City. Additional increases in the income tax rate require voter approval.

Employers within the City withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly and file an annual declaration.

The City's income tax ordinance requires a portion of the income tax revenues to be used to finance governmental type capital improvements. As a result, this portion of the revenue is transferred into the capital improvement capital projects fund each year. The remaining income tax proceeds are to be used to pay the cost of administering the tax, general fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**Intergovernmental Receivables**

A summary of intergovernmental receivables follows:

Governmental Activities	Amounts
Local Governmental and Local Government	\$ 67,280
Homestead and Rollback	62,227
Personal Property Exemption	6,441
Gasoline and Excise Tax	310,381
Motor Vehicle License Fees	84,304
Permissive Motor Vehicle License Tax	45,652
Liquor Licenses	640
Acting Judge Reimbursement	118,905
Clean Ohio Assistance	382,149
FEMA Grant	28,773
CHIP Grants	526,768
Immobilization Fees	400
Total	\$ 1,633,920
Amount to be Collected Within One Year	\$ 1,633,920

**NOTE 7 -- INSURANCE**

The City of Tiffin is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the City contracted through United Insurance Service and Sky Insurance of Tiffin for property, fleet, crime and liability insurance.

	Per Occurrence	Deductibles	Annual Aggregate
Commercial Property (Blanket):			
Building and Contents - Replacement Cost			\$ 24,525,672
Workers Compensation	\$ 1,000,000		
General Liability	\$ 1,000,000		\$ 3,000,000
Products/Completed Ops			\$ 3,000,000
Personal and Advertising Injury	\$ 1,000,000		\$ 1,000,000
Fire Damage			\$ 100,000
Automobile-Comprehensive and Collision		\$500/\$1,000 Deductible	\$ 1,000,000
Medical Payments			\$ 5,000
Umbrella	\$ 5,000,000		\$ 5,000,000
Employee Benefits Liability	\$ 1,000,000		\$ 2,000,000
Fire Vehicles		Various Deductible	\$ 1,850,725
Electronic Data Processing		\$1,000 Deductible	\$ 648,029
Crime-Employee Dishonesty	\$ 100,000		

Real Property and contents are 90 percent coinsured. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in reduction in insurance coverage from last year.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**NOTE 8 -- CAPITAL ASSETS**

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

<b>Governmental Activities:</b>	<b>Balance 12/31/04</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 12/31/05</b>
Land	\$ 3,188,030	\$ -	\$ -	\$ 3,188,030
Buildings and Improvements	7,122,098	30,295	(8,300)	7,144,093
Machinery & Equipment	2,744,920	294,094	(189,291)	2,849,723
Furniture & Fixtures	302,486	29,108	(3,102)	328,492
Infrastructure	15,199,750	520,648	(8,000)	15,712,398
Vehicles	3,043,649	536,212	(70,414)	3,509,447
<b>Total Capital Assets</b>	<b>\$ 31,600,933</b>	<b>\$ 1,410,357</b>	<b>\$ (279,107)</b>	<b>\$ 32,732,183</b>
<b>Less Accumulated Depreciation:</b>				
Buildings and Improvements	\$ (4,655,585)	\$ (79,680)	\$ 8,300	\$ (4,726,965)
Machinery & Equipment	(1,903,260)	(251,295)	189,291	(1,965,264)
Furniture & Fixtures	(201,704)	(24,334)	3,102	(222,936)
Infrastructure	(4,197,119)	(250,098)	8,000	(4,439,217)
Vehicles	(1,451,296)	(500,156)	70,414	(1,881,038)
<b>Totals Accumulated Depreciation</b>	<b>(12,408,964)</b>	<b>(1,105,563)</b>	<b>279,107</b>	<b>(13,235,420)</b>
<b>Governmental Activities - Capital Assets, Net of Accum. Dep.</b>	<b>\$ 19,191,969</b>	<b>\$ 304,794</b>	<b>\$ -</b>	<b>\$ 19,496,763</b>

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

<b>Business-Type Activities:</b>	<b>Balance 12/31/04</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 12/31/05</b>
Land	\$ 241,940	\$ -	\$ -	\$ 241,940
Buildings	10,080,076	19,917	(13,943)	10,086,050
Equipment and Machinery	505,562	-	-	505,562
Furniture and Fixtures	57,389	-	-	57,389
Vehicles	837,156	28,000	-	865,156
Infrastructure	12,407,016	753,514	-	13,160,530
<b>Total Capital Assets</b>	<b>24,129,139</b>	<b>801,431</b>	<b>(13,943)</b>	<b>24,916,627</b>
Buildings	(7,439,112)	(136,588)	-	(7,575,700)
Equipment and Machinery	(355,380)	(45,264)	13,943	(386,701)
Furniture and Fixtures	(45,381)	(3,555)	-	(48,936)
Vehicles	(533,168)	(87,752)	-	(620,920)
Infrastructure	(2,764,204)	(270,188)	-	(3,034,392)
<b>Total Accumulated Depreciation</b>	<b>(11,137,245)</b>	<b>(543,347)</b>	<b>13,943</b>	<b>(11,666,649)</b>
Business-Type Activities - Capital Assets, Net of Accum. Dep.	<b>\$ 12,991,894</b>	<b>\$ 258,084</b>	<b>\$ -</b>	<b>\$ 13,249,978</b>

\* - Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$ 42,071
Judicial	27,917
Security of Person and Places	316,950
Leisure Time Activities	123,929
Transportation	590,390
Community Environment	4,306
<b>Total Depreciation Expense</b>	<b>\$ 1,105,563</b>

**NOTE 9 -- COMPENSATED ABSENCES**

The City accrues unpaid vacation as it is earned and certain portion of sick leave pay becomes vested and payment becomes probable.

Sick leave accumulates for non-union and AFSCME employees at the rate of 4.6 hours of sick leave for each eighty hours of work completed. Employees who have sick leave accumulated receive payment upon resignation with fifteen minimum years of continuous service at a rate of 2/3 of a maximum of 180 days (120 days). Sick leave accumulates for fire employees at the rate of 1 1/4 days of sick leave for each completed month. Upon retirement the fire employees receive 1/3 total hours accumulated not to exceed 1/3 of 2880 hours.

Sick leave accumulates for police employees at 10 hours for each completed month. Upon retirement or resignation with fifteen minimum years of service receive two-thirds of sick leave accumulated not to exceed 120 days.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

Individuals leaving the employment of the City prior to retirement or at retirement lose their accumulated sick leave. At December 31, 2005, the maximum vested liability to the City for accumulated unpaid sick leave, assuming the city would have to pay all accumulated sick leave if the city ceased operations approximated \$1,010,271. A liability has been recognized in the accompanying financial statements for sick leave for only the employees who are age 50 or older, or have thirty years with local government employment.

A liability for accrued vacation for \$221,883 has been recognized. Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<b>Non-Union &amp; Dispatchers</b>	<b>Employee</b>	<b>AFSCME</b>
	<b>Credit</b>	<b>Service</b>	<b>Credit</b>
1 to 4 years	10 days	1 to 4 years	10 days
After 5 years	11 days	After 5 years	11 days
After 6 years	12 days	After 6 years	12 days
After 7 years	13 days	After 7 years	13 days
After 8 years	14 days	After 8 years	14 days
After 9-12 years	15 days	After 9-10 years	15 days
After 13 years	16 days	After 11-13 years	16 days
After 14 years	17 days	After 14 years	17 days
After 15 years	18 days	After 15 years	18 days
After 16 years	19 days	After 16-19 years	20 days
<b>Non-Union</b>			
After 17-19 years	20 days	After 20 years	21 days
After 20 years	21 days		
<b>Dispatchers</b>			
After 17-20 years	20 days		
After 21 years	21 days		
<u>Employee Service</u>	<b>Fire</b>	<b>Employee</b>	<b>Police</b>
	<b>Credit</b>	<b>Service</b>	<b>Credit</b>
1 to 6 years	5 days	1 to 4 years	10 days
After 7-14 years	8 days	After 5 years	11 days
After 15-20 years	10 days	After 6 years	12 days
After 21 years	11 days	After 7 years	13 days
		After 8 years	14 days
		After 9-12 years	15 days
		After 13 years	16 days
		After 14 years	17 days
		After 15 years	18 days
		After 16 years	19 days
		After 17-20 years	20 days
		Over 21 years	21 days

In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation. Vacation leave to an employee's credit which is in excess of the accrual for the last two years of employment shall be considered excess vacation. Employees shall forfeit their right to take or to be paid for excess vacation and such excess vacation shall be eliminated from the employee's vacation leave balance on each anniversary of employment.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

Upon retirement or death of an employee, the employee or his estate shall be entitled to compensation at his current rate of pay for all lawfully accrued and unused vacation leave to his credit at the time of retirement or death.

**NOTE 10 -- LONG TERM LIABILITIES**

	<b>Principal Outstanding 12/31/04</b>	<b>Additions</b>	<b>Retirements</b>	<b>Principal Balance 12/31/05</b>	<b>Amounts Due in One Year</b>
<b><u>Governmental Activities:</u></b>					
<b><u>Special Assessment Anticipation Notes:</u></b>					
Sanitary Sewer Improvement Notes, 7/8/99, 3.95%	\$ 600,000	\$ 500,000	\$ 600,000	\$ 500,000	\$ 500,000
<b><u>Special Assessment Bonds Payable with Government Commitment:</u></b>					
Miami Street Storm Water Drainage Improvement Bonds 6/24/98, 4.04%	530,000	-	25,000	505,000	30,000
Post-Closure Landfill through 2013	1,137,511	-	266,972	870,539	250,000
Compensated Absences Payable	951,958	629,941	549,570	1,032,329	397,764
<b>Total Governmental Activities Debt</b>	<b>\$ 3,219,469</b>	<b>\$ 1,129,941</b>	<b>\$ 1,441,542</b>	<b>\$ 2,907,868</b>	<b>\$ 1,177,764</b>
	<b>Principal Outstanding 12/31/04</b>	<b>Additions</b>	<b>Retirements</b>	<b>Principal Balance 12/31/05</b>	<b>Amounts Due in One Year</b>
<b><u>Business-Type Activities:</u></b>					
G.O. Sanitary Improvement Note, 2%	\$ 2,500,000	\$ 2,000,000	\$ 2,500,000	\$ 2,000,000	\$ 2,000,000
Sewer Imp. Bonds, 4.748%	1,025,000	-	185,000	840,000	195,000
G. O. Sanitary Sewer Refunding Bonds, Series 1998	2,040,000	-	260,000	1,780,000	270,000
Compensated Absences Payable	126,664	106,744	33,583	199,825	78,718
<b>Total Business-Type Debt</b>	<b>\$ 5,691,664</b>	<b>\$ 2,106,744</b>	<b>\$ 2,978,583</b>	<b>\$ 4,819,825</b>	<b>\$ 2,543,718</b>

Outstanding general obligation bonds consist of a wastewater treatment plant improvement issue. General Obligation Bonds are direct obligations of the City of Tiffin for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

The Special Assessment Bonds are for a Streetscape project and Miami Street Storm Water Drainage Improvements. The Special Assessment bond issues are backed by the full faith and credit of the City. In the event that an assessed property owner fails to make payments, the City will be required to pay the related debt.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

In January, 2001, based upon EPA Findings and Orders, the landfill which was closed in 1972, would need monitoring until 2013. In 2001, an estimate was made by engineers of the total monitoring costs and Post Landfill debt was established. Each year actual costs made from the capital improvement fund are reclassified against the debt established until it is complete or until a new estimate is made or if EPA determines, based on their testing, that the city is no longer required to monitor the landfill.

All of the Business-Type Activity debt is general obligation debt but it is anticipated that user charges will pay-off all the outstanding bonds.

The annual requirements to amortize all bonds and notes outstanding as of December 31, 2005 are as follows:

Year Ending December 31,	General Obligation Principal	General Obligation Interest	Special Assessment Principal	Special Assessment Interest	Total
2006	\$ 465,000	\$ 114,497	\$ 30,000	\$ 26,442	\$ 635,939
2007	485,000	94,337	30,000	25,062	634,399
2008	505,000	73,055	30,000	23,652	631,707
2009	525,000	27,042	35,000	22,212	609,254
2010	315,000	13,812	35,000	20,498	384,310
2011-2015	325,000	-	200,000	74,188	599,188
2016-2018	-	-	145,000	16,520	161,520
Totals	<u>\$ 2,620,000</u>	<u>\$ 322,743</u>	<u>\$ 505,000</u>	<u>\$ 208,574</u>	<u>\$ 3,656,317</u>

**NOTE 11 -- DEFINED BENEFIT PENSION PLANS**

The employees of the City of Tiffin are covered by either the Ohio Public Employees Retirement System or the Ohio Police and Fireman's Disability and Pension Fund. The State of Ohio accounts for the activities of the retirement systems and the amounts of these funds are not reflected in the accompanying financial statements.

**Ohio Public Employees Retirement System (OPERS)** - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans. The Traditional Pension Plan (TP) is a cost-sharing multiple-employer defined benefit pension plan. The Member-Directed Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The Combined Plan (CO) is a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement and disability, survivor and death benefits and annual cost of living adjustments to the Traditional Plan and Combined Plans. Members of the Member-Director Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

OPERS issues a stand alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005 member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan. The 2005 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety. Members in law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police contributed 10.1%. Public safety division members contributed at 9%. The 2005 local government employer contribution rate was 13.55% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate was 16.7% of covered payroll. The City's contributions for pension obligations to OPERS for the years ended December 31, 2005, 2004, and 2003 were \$406,676, \$359,735, and \$310,934; respectively; 86.42% representing the paid contribution for 2005 and 100% for 2004 and 2003. \$55,232 representing the unpaid contribution for 2005, is recorded as a liability to the individual funds that incurred the costs.

**Ohio Police and Fireman's Disability and Pension Fund** - The City of Tiffin contributes to the Ohio Police and Fireman's Disability and 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. The 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 Police and Fireman's Disability and Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2005, 2004, and 2003 were \$778,867, \$703,865, and \$735,569, respectively, equal to the required contributions for the year. 69.90% has been contributed for 2005 and 100 percent for 2004 and 2003. \$234,437 representing the unpaid contribution for 2005 is recorded as a liability to the individual funds that incurred the costs.

**NOTE 12 -- POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

**Ohio Public Employees Retirement System**—Ohio Public Employees Retirement System administers three separate pension plans: The Traditional Pension Plan (TP) is a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) is a defined contribution plan; and the Combined Plan (CO) is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio Service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12.

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety with separate employee contribution rates and benefits. The 2005 employer contribution rate for local government employers was 13.55% of covered payroll, and 4.00% was used to fund health care for the year. For both public safety and law enforcement divisions, the 2005 employer rate was 16.70% and 4.00% was used to fund health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

**Actuarial Review** -- The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2004.

**Funding Method** -- An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

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

**Investment Return** -- The investment assumption rate for 2004 was 8.0%.

**Active Employee Total Payroll** -- An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from 0.50% to 6.30%.

**Health Care** -- Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB are advance-funded on an actuarially determined basis. At year-end 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The city's contribution to fund post employment benefits was \$120,051.

The amount of \$10.8 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

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

**CITY OF TIFFIN  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**Ohio Police and Firemen's Disability and Pension Fund**

The Ohio Police and Firemen's Disability and Pension Fund (OP&F) provides access to post retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firemen's employer contribution rate is 24% of covered payroll.

The Ohio Revised Code provides the statutory authority allowing the Fund's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2004 and in 2005. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2004, the date of the last actuarial valuation available, is 13,812 for police and 10,528 for firefighters.

The amount that the City contributed as the employer's share to pay post employment benefits for 2005, 2004, and 2003 was \$274,192, \$248,823 and \$260,531, respectively.

The Fund's total health care expenses for the year ending December 31, 2004, the date of the last actuarial valuation was \$102,173,796, which was net of member contributions of \$55,665,341.

**NOTE 13 -- SEGMENT INFORMATION - ENTERPRISE FUND**

The City operates one enterprise fund, which provides disposal and treatment of sewage services. The key financial information for the year ended December 31, 2005 for this enterprise activity is as follows:

	<u>Sewer Fund</u>
Operating Revenue	\$ 2,841,091
Operating Expenses less Depreciation	\$ 1,591,287
Depreciation	\$ 543,347
Operating Income	\$ 706,457
Capital Assets	\$ 13,249,978
Asset Additions	\$ 801,431
Total Assets	\$ 15,500,703
Bonds and Note Debt	\$ 4,620,000
Net Working Capital	\$ 395,233
Total Net Assets	\$ 10,578,638

**CITY OF TIFFIN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**  
(Continued)

**NOTE 14 -- CONTINGENT LIABILITIES**

**A. Federal and State Grants**

The City participates in several federally assisted programs. These programs are subject to financial and compliance audits by grantor agencies or their representative. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

**B. Litigation**

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the law director the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**NOTE 15 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported in the fund financial statements:

<u>Transfers to</u>	<u>Transfers from</u>
	<u>General</u>
Nonmajor governmental	\$ 1,248,225
Enterprise	2,678
	<u>Nonmajor governmental</u>
Nonmajor governmental	194,518
	<u>Enterprise</u>
Enterprise	1,263,371

Transfers are used to (1) move revenues from the fund that statute or budget requires 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.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Members of Council and Mayor  
City of Tiffin  
51 East Market Street  
Tiffin, Ohio 44883

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tiffin (the "City") as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 19, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated May 19, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to management of the City in a separate letter dated May 19, 2006.

Members of Council and Mayor  
City of Tiffin

This report is intended solely for the information and use of City Council and the management of the City of Tiffin, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
May 19, 2006





**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**CITY OF TIFFIN  
SENECA 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  
AUGUST 24, 2006**