

CITY OF TIFFIN, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2003

Charles E. Harris and Associates, Inc.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

City Council
City of Tiffin
53 E. Market St.
Tiffin, OH 44883

We have reviewed the Independent Auditor's Report of the City of Tiffin, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2003 through December 31, 2003. 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

October 6, 2004

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CITY OF TIFFIN, OHIO
AUDIT REPORT
For the Year Ended December 31, 2003

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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REPORT OF INDEPENDENT ACCOUNTANTS

**The Honorable Mayor and City Council
City of Tiffin
Tiffin, Ohio**

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the remaining fund information of the City as of December 31, 2003, 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 ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4 to the basic financial statements, during 2003, the City adopted Governmental Accounting and Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 22, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Tiffin taken as a whole. The accompanying schedule of federal awards expenditures is presented for the purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information as been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Charles E. Harris & Associates, Inc.
July 22, 2004

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2003

(Unaudited)

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, 2003. 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 2003 are as follows:

- The City's net assets increased \$0.5 million as a result of this year's operations. Net assets of our business-type activities increased \$0.5 million while net assets of our governmental activities remained the same.
- During the year, full accrual accounting showed the city's revenues and expenses for governmental activities balanced each other. The administration and council achieved this by reducing appropriations, as it became apparent that revenues were not meeting projections.
- The business-type activities increased capital assets by \$4.3 million mainly from the construction of Phase I of the City's long-term sewer separation program.
- The General Fund equity in pooled cash and cash equivalents fell by \$0.9 million to \$0.4 million.
- In November 2003 the voters turned down a request by the City that would have allowed 21.5% of the Income Tax revenue presently mandated for Capital Funds to be used at council's discretion. Passage of this measure would have allowed Council to stop the erosion of the General Fund equity in pooled cash and cash equivalents.

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 Fund is by far the most significant fund.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

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

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2003

(Unaudited)

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.

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 fund is the General Fund.

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 2003:

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2003

(Unaudited)

Table 1
 Net Assets
 (In Millions)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Assets			
Current and Other Assets	9.4	3.6	13.0
Capital Assets	<u>18.9</u>	<u>12.4</u>	<u>31.3</u>
Total Assets	<u>28.3</u>	<u>16.0</u>	<u>44.3</u>
Liabilities			
Long-term Liabilities	3.7	6.6	10.3
Other Liabilities	<u>1.8</u>	<u>0.7</u>	<u>2.5</u>
Total Liabilities	<u>5.5</u>	<u>7.3</u>	<u>12.8</u>
Net Assets			
Invested in Capital Assets Net of Debt	17.5	5.9	24.0
Restricted	1.1	0	1.1
Unrestricted (Deficit)	<u>4.1</u>	<u>2.9</u>	<u>6.4</u>
Total Net Assets	<u>22.7</u>	<u>8.8</u>	<u>31.5</u>

This is the first year for GASB 34 reporting for the City of Tiffin. Therefore comparisons with 2002 are not possible.

Table 2 shows the changes in net assets for the year 2003. Since this is the first year the City has prepared financial statements following GASB Statement 34, revenue and expense comparisons to the year 2002 are not available.

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2003

(Unaudited)

Table 2
 Changes in Net Assets
 (In Millions)

	<u>Governmental</u> <u>Activities</u> <u>2003</u>	<u>Business-Type</u> <u>Activities</u> <u>2003</u>	<u>Totals</u> <u>2003</u>
Revenue			
Program Revenues:			
Charges for Services	\$0.4	\$2.8	\$3.2
Operating Grants	0.6	0.0	0.6
Capital Grants	0.7	0.1	0.8
General Revenue:			
Municipal Income Tax	6.7	0.0	6.7
Property Taxes	0.9	0.0	0.9
Grants and Entitlements	1.0	0.0	1.0
Other	<u>1.3</u>	<u>0.1</u>	<u>1.4</u>
Total Revenues	<u>11.6</u>	<u>3.0</u>	<u>14.6</u>
Program Expenses			
General Government –Legislative and Executive	\$1.4	\$0.0	\$1.4
General Government –Judicial	0.5	0.0	0.5
Public Safety	6.6	0.0	6.6
Transportation	1.5	0.0	1.5
Public Welfare	0.2	0.0	0.2
Economic Development and Assistance	0.1	0.0	0.1
Urban Redevelopment and Housing	0.2	0.0	0.2
Community Environment	0.5	0.0	0.5
Leisure Time Activities	0.5	0.0	0.5
Interest and Fiscal Charges	0.1	0.0	0.1
Sewer Districts	<u>0.0</u>	<u>2.5</u>	<u>2.5</u>
Total Expenses	<u>11.6</u>	<u>2.5</u>	<u>14.1</u>
Increase (Decrease) in Net Assets	<u>0.0</u>	<u>0.5</u>	<u>0.5</u>

Governmental Activities

To assure no deficit would occur in 2004, management reduced about \$0.2 million from the 2003 budget and another \$1.3 million from the 2004. These reductions included:

City of Tiffin
Management's Discussion and Analysis
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- ❑ Removed the cost of closing the old landfill from the General Fund.
- ❑ Froze new hires in the police department.
- ❑ Froze new hires in the fire/rescue department.
- ❑ Reduced staff hours for many non-union General Fund funded positions.
- ❑ Did not replace positions upon retirement of a city worker.
- ❑ Removed all capital expenditures from the General Fund.
- ❑ Moved the Sidewalk program totally to the Capital Improvement Capital Projects Fund.
- ❑ Moved Development costs to other funds.

Planned reductions for 2004 were in diverse areas. Each department in the General Fund was cut 10%. The street department lost its 3% allocation of the income tax and parks was cut from 4% to 3% of the income tax and a loss of \$85,000 in direct transfers. All departments except the court are operating with a reduction in staff or a cut in staff hours along with a cut in operational supplies.

The City's largest source of governmental funding is the 1.75% income tax. In 2003 it provided 71.5% of the general Fund revenues. As determined by voters 21.5% of the income tax must be spent on capital projects. In 2003 there was a growth of 3% in the income tax.

General Government Security comprises 56.5 percent of governmental program expenses. Transportation comprises 12.9 per cent and General Government Legislative and Executive comprise an additional 12 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. Comparisons to 2002 have not been made since they are not available.

Table 3
 Governmental Activities
 (In Millions)

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
General Government-Legislative and Executive	\$1.4	\$1.4
General Government-Judicial	0.5	0.5
Security of Persons and Property	6.6	6.3
Transportation	1.5	0.8
Public Health and Welfare	0.2	0.2
Community Environment	0.5	0.5
Leisure Time Activities	0.5	0.5
Economic Development and Assistance	0.1	0.1
Urban Redevelopment and Housing	0.2	-0.5
Interest and Fiscal Charges	<u>0.1</u>	<u>0.1</u>
Total Expenses	<u>\$11.6</u>	<u>\$9.9</u>

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2003

(Unaudited)

The dependence upon tax revenues for governmental activities is apparent. Over 95 percent of public safety and other human services are supported through taxes and other general revenues, for all governmental activities revenue support is 85 percent. 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 \$3.1 million and expenses of \$2.6 million for the year 2003. As discussed earlier, management has reviewed this program and fees were increased 3 percent in May 2003. Business activities receive no support from tax revenues.

The City's Funds

Information about the City's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11.3 million and expenditures of \$12.7 million. The net change in fund balance for the year was most significant in the General Fund, a decline of \$1.0 million. This decline indicated the City needed to increase its revenue base and/or decrease its expenditures to continue meeting City obligations as a whole.

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 2003 the City amended its General Fund budget numerous times. With the exception of removing the cost of the landfill none 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.

For the General Fund, budget revenue was \$10.0 million, below original budget estimates of \$10.2 million. Of this \$0.2 million difference most was due to overestimated income tax, property tax, State Local Government Fund revenues, interest income, and estate taxes.

The City's 2003 ending unobligated General Fund cash balance was \$0.1 million above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2003 the City had \$31.3 million invested in land, buildings, equipment, vehicles, and infrastructure, of which \$18.9 million was in governmental activities. Table 4 shows the 2003 balances.

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2003

(Unaudited)

Table 4
 Capital Assets at June 30
 (Net of Depreciation, in Millions)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Land	\$3.2	\$0.2	\$3.4
Buildings and Improvements	2.6	2.8	5.4
Equipment & Machinery	0.8	0.2	1.0
Furniture & Fixtures	0.1	0.1	0.2
Vehicles	1.6	0.2	1.8
Infrastructure	<u>10.6</u>	<u>8.9</u>	<u>19.5</u>
Totals	<u>\$18.9</u>	<u>\$12.4</u>	<u>\$31.3</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.

As of December 31, 2003, the City has contractual commitments for finishing Phase I the Combined Sewer Separation Project. The balance outstanding on this contract was \$0.4 million.

Debt

As of December 31, 2003 the City had \$8.0 million in bonds and notes outstanding, \$4.4 million due within one year. Table 5 summarizes bonds and notes outstanding.

Table 5
 Outstanding Debt, at Year End
 (In Millions)

	Governmental Activities <u>2003</u>	Business-Type Activities <u>2003</u>
General Obligation Bonds:		
Improvement	\$.56	\$3.50
Notes Payable		
Sanitary Sewer Improvement	<u>.90</u>	<u>3.00</u>
Total	<u>\$1.46</u>	<u>\$6.50</u>

At December 31, 2003, the City's overall legal debt margin was \$26.2 million with an unvoted debt margin of \$13.3 million. The City maintains an A3 bond rating.

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2003

(Unaudited)

For the Future

The City is struggling financially. As the preceding information shows, the City heavily depends on its municipal Income Tax. With the requirement that 21.5% of this tax be used for Capital Purchases the city lacks the flexibility to operate its General Fund as needed. To restore the cuts to the various departments of the General Fund the City needs to go to the voters, not for additional taxes, but to reduce or remove the Capital Fund requirement.

In conclusion, the City has committed itself to financial responsibility for many 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 Larry W. Clausing, Director of Finance, P O Box 455. Tiffin, Ohio 44883-0455. Or e-mail at financedirector@tiffinohio.com or telephone at (419) 448- 5403.

City of Tiffin

Statement of Net Assets
December 31, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,686,458	\$2,844,613	\$6,531,071
Cash and Cash Equivalents:			
In Segregated Accounts	310	0	310
Receivables:			
Taxes	2,639,735	0	2,639,735
Accounts	100,293	675,303	775,596
Special Assessments	903,081	0	903,081
Accrued Interest	11,076	7,533	18,609
Due from Other Governments	1,533,890	0	1,533,890
Prepaid Items	142,388	23,179	165,567
Material and Supplies Inventory	54,314	16,186	70,500
Notes Receivable	234,713	0	234,713
Unamortized Bond Issue Costs	0	68,590	68,590
Capital assets, No Depreciation	3,188,029	241,940	3,429,969
Capital assets, net of depreciation	15,756,767	12,134,799	27,891,566
Total Assets	\$28,251,054	\$16,012,143	\$44,263,197
Liabilities			
Accounts Payable	\$134,793	\$571,716	\$706,509
Accrued Wages	195,988	22,043	218,031
Due to Other Governments	389,067	28,219	417,286
Deferred Revenue	1,124,515	0	1,124,515
Accrued Interest Payable	6,725	25,397	32,122
Long-Term Liabilities:			
Due within one year	1,681,524	3,476,367	5,157,891
Due in more than one year	1,988,199	3,132,966	5,121,165
Total Liabilities	5,520,811	7,256,708	12,777,519
Net Assets			
Invested in capital assets, net of related debt	17,489,796	5,881,743	23,371,539
Restricted for:			
Capital Projects	25,000	0	25,000
Debt Service	41,274	0	41,274
Other Purposes	1,069,450	0	1,069,450
Unrestricted (deficit)	4,104,723	2,873,692	6,978,415
Total Net Assets	\$22,730,243	\$8,755,435	\$31,485,678

See accompanying notes to the basic financial statements.

City of Tiffin

Statement of Activities
For the Year Ended December 31, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental Activities:							
General Government:							
Legislative and Executive	\$1,402,999	\$7,832	\$0	\$0	(\$1,395,167)		(\$1,395,167)
Judicial	556,809	0	0	0	(556,809)		(556,809)
Security of Persons and Property	6,563,688	258,942	16,706	0	(6,288,040)		(6,288,040)
Public Health and Welfare	158,013	0	0	0	(158,013)		(158,013)
Transportation	1,498,479	111,709	617,116	0	(769,654)		(769,654)
Community Environment	502,045	11,618	0	0	(490,427)		(490,427)
Leisure Time Activities	549,013	0	0	0	(549,013)		(549,013)
Economic Development and Assistance	128,631	0	0	0	(128,631)		(128,631)
Urban Redevelopment and Housing	191,086	0	0	697,402	506,316		506,316
Interest and Fiscal Charges	51,712	0	0	0	(51,712)		(51,712)
Total governmental activities	11,602,475	390,101	633,822	697,402	(9,881,150)		(9,881,150)
Business-Type activities:							
Sewer Fund	2,568,461	2,814,201	0	175,542		421,282	421,282
Total Business-Type activities	2,568,461	2,814,201	0	175,542	0	421,282	421,282
Total primary government	\$14,170,936	\$3,204,302	\$633,822	\$872,944	(\$9,881,150)	\$421,282	(\$9,459,868)
General revenues:							
Taxes:							
Municipal Income Tax					\$6,675,848	\$0	\$6,675,848
Property taxes, levied for general purposes					941,463	0	941,463
Grants and contributions not restricted to specific programs					991,181	0	991,181
Unrestricted investment earnings					118,785	99,654	218,439
Miscellaneous					1,145,853	0	1,145,853
Total general revenues					9,873,130	99,654	9,972,784
Change in net assets					(8,020)	520,936	512,916
Net assets - January 1, 2003					22,738,263	8,234,499	30,972,762
Net assets - December 31, 2003					\$22,730,243	\$8,755,435	\$31,485,678

See accompanying notes to the basic financial statements.

City of Tiffin

Balance Sheet
 Governmental Funds
 December 31, 2003

Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities

	General	Other Governmental Funds	Total Governmental Funds	Total Governmental Fund Balances	\$4,299,502
Assets and Other Debits					
Assets					
Equity in Pooled Cash and Cash Equivalents	\$419,017	\$3,267,441	\$3,686,458		
Cash and Cash Equivalents:					
With Fiscal Agents	310	0	310		
Receivables:					
Taxes	2,476,227	163,508	2,639,735		
Accounts	85,097	15,196	100,293		
Accrued Interest	0	903,081	903,081		
Due from Other Funds	10,142	934	11,076		
Due from Other Governments	529,027	1,004,863	1,533,890		
Prepaid Items	82,784	59,604	142,388		
Material and Supplies Inventory	11,590	42,724	54,314		
Notes Receivable	0	234,713	234,713		
Total Assets	\$3,614,194	\$5,692,064	\$9,306,258		
Liabilities					
Accounts Payable	\$89,827	\$44,966	\$134,793		
Accrued Wages	175,426	20,562	195,988		
Due to Other Governments	359,464	29,603	389,067		
Deferred Revenue	2,279,017	2,007,891	4,286,908		
Total Liabilities	2,903,734	2,103,022	5,006,756		
Fund Balances:					
Reserved for Capital Projects	0	25,000	25,000		
Reserved for Notes Receivable	0	234,713	234,713		
Reserved for Encumbrances	236,269	544,154	780,423		
Reserved for Inventory	11,590	42,724	54,314		
Reserved for Debt Service	0	41,274	41,274		
Unreserved	462,601	0	462,601		
Unreserved, Reported in:					
Special Revenue Funds	0	1,526,726	1,526,726		
Debt Service Fund	0	23,482	23,482		
Capital Projects Funds	0	1,144,059	1,144,059		
Permanent Funds	0	6,910	6,910		
Total Fund Balances	710,460	3,589,042	4,299,502		
Total Liabilities and Fund Balances	\$3,614,194	\$5,692,064	\$9,306,258		

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 18,944,796

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:

Municipal Income Taxes \$968,888
 Delinquent Property Taxes 59,672
 Grants 815,212
 Special Assessments 1,310,645
 Accrued Interest On Investments 7,976 3,162,393

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.

Accrued Interest Payable (6,725)
 Compensated Absences Payable (904,353)
 Post Closure Landfill Payable (1,310,370)
 Special Assessment Bonds Payable (555,000)
 Sanitary Improvement Note Payable (900,000) (3,676,448)

Net Assets of Governmental Activities \$22,730,243

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, 2003

	General	Other Governmental Funds	Total Governmental Funds	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2003	
Revenues:				Net Change in Fund Balances-Total Governmental Funds	(\$533,422)
Municipal Income Tax	\$6,609,318	\$0	\$6,609,318		
Intergovernmental	1,014,993	974,200	1,989,193	Amounts reported in governmental activities in the statement of activities are different because:	
Investment Income	68,667	56,424	125,091	Governmental funds report capital outlays as expenditures. 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.	
Licenses and Permits	25,544	0	25,544	Capital Outlay	\$1,063,065
Fines and Forfeitures	307,625	182,235	489,860	Depreciation	(984,339)
Special Assessments	0	131,019	131,019		78,726
Charges for Services	278,392	52,673	331,065		
Property and Other Taxes	816,240	140,918	957,158		
Miscellaneous	146,920	481,029	627,949		
Total Revenue	9,267,699	2,018,498	11,286,197		
Expenditures:				Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Current:					
General Government:				Municipal Income Tax	\$66,530
Legislative and Executive	1,565,762	0	1,565,762	Intergovernmental Grants	333,212
Judicial	411,867	116,020	527,887	Interest on Investments	(6,306)
Security of Persons and Property	5,942,895	301,250	6,244,145	Special Assessments	(71,983)
Public Health and Welfare	158,013	0	158,013	Delinquent Property Taxes	(15,695)
Transportation	18,000	1,587,859	1,605,859		305,758
Community Environment	29,439	471,575	501,014	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 state- ment of net assets. This is the amount by which proceeds are (over) under payments.	
Leisure Time Activities	0	455,668	455,668	Proceed of Debt	(\$900,000)
Economic Development and Assistance	128,631	0	128,631	Principal Payments	1,286,648
Urban Redevelopment and Housing	0	191,086	191,086		386,648
Debt Service:					
Principal Retirement	73,067	1,213,581	1,286,648		
Interest and Fiscal Charges	0	57,406	57,406		
Total Expenditures	8,327,674	4,394,445	12,722,119		
Excess of Revenues Over (Under) Expenditures	940,025	(2,375,947)	(1,435,922)		
Other Financing Sources (Uses):				In the statement of activities, interest is accrued on on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	5,694
Proceeds of Notes	0	900,000	900,000		
Proceeds from Sale of Fixed Assets	2,500	0	2,500		
Transfers In	0	2,319,131	2,319,131	Some expenses reported in the statment of activities, such as compensated absences do not require the use of current financial resources are not reported as expenditures in the governmental funds.	
Transfers Out	(1,989,008)	(330,123)	(2,319,131)	Inventory	(\$30,802)
Total Other Sources (Uses)	(1,986,508)	2,889,008	902,500	Increase in Compensated Absences	(220,622)
Net Change in Fund Balance	(1,046,483)	513,061	(533,422)	Change in Net Assets of Governmental Activities	<u><u>(\$8,020)</u></u>
Fund Balances (Deficit) at Beginning of Year	1,753,927	3,109,799	4,863,726		
Increase (Decrease) in Reserve for Inventory	3,016	(33,818)	(30,802)		
Fund Balances (Deficits) End of Year	\$710,460	\$3,589,042	\$4,299,502		

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, 2003

	Budgeted Amounts		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Municipal Income Taxes	\$7,025,000	\$7,025,000	\$6,680,731	(\$344,269)
Property Taxes	858,000	858,000	815,786	(42,214)
Charges for Services	297,100	297,100	300,315	3,215
Licenses and Permits	26,880	26,880	25,404	(1,476)
Fines and Forfeitures	365,400	365,400	330,620	(34,780)
Intergovernmental	1,252,000	1,160,000	970,998	(189,002)
Investment Income	220,000	120,000	73,890	(46,110)
Other	109,000	109,000	146,426	37,426
Total Revenue	10,153,380	9,961,380	9,344,170	(617,210)
Expenditures:				
Current:				
General Government:				
Legislative and Executive	2,004,159	2,024,159	1,704,020	320,139
Judicial	464,655	453,655	416,720	36,935
Security of Persons and Property	6,495,333	6,508,334	6,103,063	405,271
Public Health & Welfare	398,623	173,623	158,013	15,610
Transportation	18,000	18,000	18,000	0
Community Environment	48,005	48,105	33,400	14,705
Economic Development and Assistance	137,100	137,100	128,631	8,469
Total Expenditures	9,565,875	9,362,976	8,561,847	801,129
Excess of Revenues Over (Under) Expenditures	587,505	598,404	782,323	183,919
Other Financing Sources (Uses):				
Other Financing Sources	16,650	16,650	0	(16,650)
Sale of Fixed Assets	7,500	7,500	2,500	(5,000)
Transfers - Out	(1,975,000)	(1,975,000)	(1,989,008)	(14,008)
Total Other Sources (Uses)	(1,950,850)	(1,950,850)	(1,986,508)	(35,658)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(1,363,345)	(1,352,446)	(1,204,185)	148,261
Fund Balances (Deficit) at Beginning of Year	993,466	993,466	993,466	0
Prior Year Encumbrances Appropriated	374,005	374,005	374,005	0
Fund Balances (Deficit) at End of Year	\$4,126	\$15,025	\$163,286	\$148,261

See accompanying notes to the basic financial statements.

City of Tiffin

Statement of Net Assets
 Proprietary Funds
 December 31, 2003

	Business-Type Activities Enterprise Funds
	<u>Sewer Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,844,613
Receivables:	
Accounts	675,303
Accrued Interest	7,533
Prepaid Items	23,179
Material and Supplies Inventory	16,186
Unamortized Bond Issue Costs	<u>68,590</u>
Total Current Assets	3,635,404
Capital assets, No Depreciation	241,940
Capital assets, net of depreciation	<u>12,134,799</u>
Total Assets	<u><u>\$16,012,143</u></u>
Liabilities	
Current Liabilities:	
Accounts Payable	\$571,716
Accrued Wages	22,043
Compensated Absences Payable	114,333
Due to Other Governments	28,219
Accrued Interest Payable	25,397
Bonds and Notes Payable	<u>3,430,000</u>
Total Current Liabilities	4,191,708
Noncurrent Liabilities:	
Bond Payable	<u>3,065,000</u>
Total Long-Term Liabilities	<u>3,065,000</u>
Total Liabilities	7,256,708
Net Assets	
Invested in capital assets, net of related debt	5,881,743
Unrestricted	<u>2,873,692</u>
Total Net Assets	<u><u>\$8,755,435</u></u>

See accompanying notes to the basic financial statements.

City of Tiffin

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

For the Year Ended December 31, 2003

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Sewer Fund</u>
Operating Revenues:	
Charges for Services	\$2,796,638
Other Operating Revenue	<u>2,383</u>
Total Operating Revenues	<u>2,799,021</u>
Operating Expenses:	
Personal Services	1,007,872
Contractual Services	801,238
Materials and Supplies	86,465
Other Operating Expense	51,457
Depreciation	<u>450,613</u>
Total Operating Expenses	<u>2,397,645</u>
Operating Income (Loss)	<u>401,376</u>
Non-Operating Revenues (Expenses):	
Tap-In Fees	15,180
Interest Income	99,654
Interest and Fiscal Charges	<u>(170,816)</u>
Total Non-Operating Revenues (Expenses)	<u>(55,982)</u>
Income (Loss) Before Contributions	345,394
Capital Contributions	<u>175,542</u>
Change in Net Assets	520,936
Total Net Assets at Beginning of Year	<u>8,234,499</u>
Total Net Assets at End of Year	<u><u>\$8,755,435</u></u>

See accompanying notes to the basic financial statements.

City of Tiffin
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2003

	Business-Type Activities Enterprise Fund
	Sewer Fund
Increase (Decrease) in Cash and Cash Equivalents	
<u>Cash Flows from Operating Activities:</u>	
Cash Received for Services	\$2,807,718
Cash Received from Other Operating Sources	2,223
Cash Payments to Suppliers for Goods and Services	(349,013)
Cash Payments to Employees for Services	(1,009,458)
Cash Payments for Other Operating Expenses	(51,457)
Net Cash Provided by (Used in) Operating Activities	<u>1,400,013</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Tap-In Fees	<u>15,180</u>
Net Cash Provided by Noncapital Financing Activities	<u>15,180</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Proceeds from Notes	3,000,000
Principal Payments - Bonds and Notes	(4,405,000)
Payments for Capital Acquisitions	(4,174,324)
Interest Paid	(167,806)
Net Cash Provided by Capital and Related Financing Activities	<u>(5,747,130)</u>
<u>Cash flows from Investing Activities:</u>	
Interest on Investments	<u>106,402</u>
Net Cash Provided by Investing Activities:	<u>106,402</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,225,535)
Cash and Cash Equivalents Beginning of Year	<u>7,070,148</u>
Cash and Cash Equivalents End of Year	<u><u>\$2,844,613</u></u>
<u>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</u>	
Operating Income (Loss)	\$401,376
Adjustments:	
Net Cash from Operating Activities:	
Depreciation Expense	450,613
(Increase) Decrease in Assets:	
Accounts Receivable	10,920
Prepaid Items	1,324
Materials and Supplies Inventory	(7,089)
Increase (Decrease) in Liabilities:	
Accounts Payable	539,140
Accrued Wages and Benefits	2,066
Compensated Absences Payable	609
Due to Other Governments	(4,261)
Fixed Assets Purchased Through Accounts Payable	5,315
Total Adjustments	<u>998,637</u>
Net Cash Provided by Operating Activities	<u><u>\$1,400,013</u></u>

See accompanying notes to the basic financial statements.

City of Tiffin

Statement of Fiduciary Net Assets
Fiduciary Funds

December 31, 2003

	<u>Agency</u>
Assets:	

Equity in Pooled Cash and Cash Equivalents	\$2,828
Cash and Cash Equivalents: In Segregated Accounts	<u>96,636</u>
Total Assets	<u><u>\$99,464</u></u>
Liabilities:	

Undistributed Monies	<u>\$99,464</u>
Total Liabilities	<u><u>\$99,464</u></u>

See accompanying notes to the basic financial statements.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2003

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. As a council member, the Mayor has the right to vote on all issues before council. Council 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 protection within its boundaries, and fire protection to its citizens and adjacent townships by mutual agreement contracts. The City provides basic utilities in the form of waste water 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
FOR THE YEAR ENDED DECEMBER 31, 2003

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 and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain 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 General fund is the City's only major governmental 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.

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.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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.

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 sewer 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.

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.

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.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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, 2003, but which were levied to finance 2004 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.

Expenses/Expenditures

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

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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, department and object level. Line item appropriations may be transferred between the accounts with the approval of Council. 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 2003.

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. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. Several supplemental appropriation ordinances were legally enacted by Council 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.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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 reappropriated.

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 2003, investments were limited to repurchase agreements and certificates of deposits.

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 2003 amounted to \$68,667.

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.

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 an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

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

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2003, 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 dollars. 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. Interest of \$80,000 incurred during the construction of capital assets was also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life 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

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.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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.

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.

I. 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 judgements, 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.

M. FUND BALANCE RESERVES

The city reserves those portions of fund balance 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 fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, inventories of supplies and materials, notes receivable, capital projects and debt service.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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 EXPENSES

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.

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 of 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 2003.

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.

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

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:

<u>Net Change in Fund Balance</u>	
General Fund	
<u>Budget Basis</u>	\$(1,204,185)
Adjustments:	
Revenue Accruals:	
Accrued 2002, Received in Cash 2003	(725,649)
Accrued 2003, Not yet Received in Cash	649,178
Expenditure Accruals:	
Accrued 2003, Not yet Paid in Cash	(369,635)
Accrued 2002, Paid in Cash 2003	347,767
Encumbrances	<u>256,041</u>
<u>GAAP Basis</u>	<u>\$(1,046,483)</u>

NOTE 4 -- CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

1. Changes in Accounting Principles

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

**CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
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GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

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

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

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

2. Restatement of Fund Balance

These restatements had the following effects on fund balance of the major and non-major funds of the City as they were previously reported. The transition from governmental fund balance to net assets. The transition from governmental fund balance to net assets of the government activities is also presented.

	<u>General</u>	<u>Non-Major</u>	<u>Total</u>
Fund Balance December 31, 2002	\$1,734,789	\$3,077,603	\$4,812,392
Interpretation No. 6	19,138	286	19,424
Permanent Trust Fund	<u>-</u>	<u>31,910</u>	<u>31,910</u>
Adjusted Fund Balance	<u>\$1,753,927</u>	<u>\$3,109,799</u>	4,863,726
GASB 34 Adjustments:			
Capital Assets			18,866,070
Accrued Interest Payable			(12,419)
Long-Term Liabilities			(3,835,749)
Long-Term (Deferred) Assets			<u>2,856,635</u>
Governmental Activities Net Assets, December 31, 2002			<u>\$22,738,263</u>

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.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Inactive deposits are public deposits that the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must 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;
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 City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon 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.

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

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 \$5,448,025 and the bank balance was \$5,562,824. Of the bank balance:

1. \$500,000 was covered by federal depository insurance, by collateral held by the City or by collateral held by a qualified third party trustee in the name of the City;
2. \$5,062,824 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions.

The City's deposits are categorized in the following table to give an indication of the level of credit risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the City name. Category 3 includes uninsured and uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the City name.

	<u>1</u>	<u>Categories</u>		<u>Bank Balance</u>
		<u>2</u>	<u>3</u>	
Certificates	\$ 5,340,000	\$ -	\$ -	\$ 5,340,000
Checking Accounts	107,565	-	-	107,565
Municipal Court	<u>115,259</u>	<u>-</u>	<u>-</u>	<u>115,259</u>
Totals	<u>\$ 5,562,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,562,824</u>

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Statutes authorize the City of Tiffin to invest in obligations of U.S. Treasury, agencies and instrumentalities, bonds and other obligations of this State, and repurchase agreements.

The City's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category A includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category B includes uninsured and unregistered investments for which the securities are held by the Trust department or agent in the City's name. Category C includes uninsured and unregistered investments for which securities are held by the Trust department but not in the City's name.

		<u>Carrying Amount</u>	<u>Fair Value</u>
Bank Repurchase	Category C	\$ <u>1,182,510</u>	\$ <u>1,182,510</u>
Total Investments		<u>\$ 1,182,510</u>	<u>\$ 1,182,510</u>

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 6 -- RECEIVABLES

Receivables at December 31, 2003, 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 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) is for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

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. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2003, was \$4.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	\$209,428,200
Public Utility Property Real	24,120
Public Utility Tangible	15,818,730
Tangible Personal Property	<u>32,689,735</u>
Total Valuation	<u>\$257,960,785</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, 2003 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 2003 operations. The receivable is therefore offset by deferred revenue.

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

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.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Local Government and Local Government	
Revenue Assistance	\$481,451
Homestead and Rollback	53,683
Gasoline and Excise Tax	229,200
Motor Vehicle License Fees	91,886
Permissive Motor Vehicle License Tax	47,895
CDBG Formula	90,000
CHIP Grants	533,000
DARE Grant	5,000
Liquor Licenses	1,370
Immobilization Fees	<u>405</u>
Total	<u>\$1,533,890</u>
Amount to be Collected Within More Than One Year	<u>\$950,402</u>

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 2003, the City contracted through Heritage Insurance with Ohio Government Risk Management Plan for property, fleet, crime and liability insurance.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Coverages provided by Ohio Government Risk Management Plan are as follows:

	<u>Per Occurrence</u>	<u>Annual Aggregate</u>
Building and Contents-Replacement Cost		\$25,660,359
Liability	\$5,000,000 per Occurrence	\$ 7,000,000
Wrongful Acts	\$5,000,000 per Occurrence	\$ 7,000,000
Law Enforcement	\$5,000,000 per Occurrence	\$ 7,000,000
Automobile	\$250 Deductible Comprehensive	\$5,000,000
	\$500 Deductible Collision	\$5,000,000
Bond		\$100,000
Inland Marine	\$1,000 Deductible	\$4,864,502
Fire Vehicles	Various Deductibles	\$1,850,725
Electronic Data Processing	\$1,000 Deductible	\$621,577

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 coverages from last year.

NOTE 8 -- CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003:

	<u>Balance</u> <u>12/31/02</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/03</u>
Governmental Activities:				
Land	\$3,023,200	\$ 297,806	\$(132,977)	\$3,188,030
Buildings and Improvements	7,079,947	22,427	-	7,102,374
Machinery & Equipment	2,497,042	106,465	(22,765)	2,580,742
Furniture & Fixtures	278,681	5,315	-	283,996
Infrastructure	13,646,304	687,138	-	14,333,442
Vehicles	<u>3,062,026</u>	<u>76,891</u>	<u>(45,939)</u>	<u>3,092,977</u>
Total Capital Assets	\$29,587,200	1,196,042	(201,681)	30,581,561
Less Accumulated Depreciation:				
Buildings and Improvements	(4,436,549)	(56,849)	-	(4,493,398)
Machinery & Equipment	(1,530,163)	(229,386)	22,765	(1,736,784)
Furniture & Fixtures	(159,451)	(24,657)	-	(184,107)
Infrastructure	(3,293,461)	(437,841)	-	(3,731,302)
Vehicles	<u>(1,301,506)</u>	<u>(235,606)</u>	<u>45,939</u>	<u>(1,491,174)</u>
Totals Accumulated Depreciation	<u>(10,721,130)</u>	<u>(984,339)</u>	<u>68,704</u>	<u>(11,636,765)</u>
Governmental Activities- Assets, Net	<u>\$18,866,070</u>	<u>\$211,703</u>	<u>\$(132,977)</u>	<u>\$18,944,796</u>

CITY OF TIFFIN
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Business-Type Activities:				
Land	\$ 241,940	\$ -	\$ -	\$ 241,940
Buildings	10,080,076	-	-	10,080,076
Equipment and Machinery	472,280	24,201	(600)	495,881
Furniture and Fixtures	56,869	520	-	57,389
Vehicles	711,910	13,080	-	724,990
Infrastructure	6,874,934	4,560,538	-	11,435,472
Construction In Progress	<u>253,784</u>	<u>(253,784)</u>	<u>-</u>	<u>-</u>
Total Capital Assets	18,691,793	4,344,555	(600)	23,035,748
Less Accumulated Depreciation:				
Buildings	(7,165,935)	(136,589)	-	(7,302,523)
Equipment and Machinery	(281,092)	(46,036)	600	(326,528)
Furniture and Fixtures	(34,154)	(5,666)	-	(39,820)
Vehicles	(409,529)	(69,475)	-	(479,004)
Infrastructure	<u>(2,318,283)</u>	<u>(192,851)</u>	<u>-</u>	<u>(2,511,134)</u>
Total Accumulated Depreciation	<u>(10,208,992)</u>	<u>(450,617)</u>	<u>600</u>	<u>(10,659,009)</u>
Business-Type Capital Assets, Net	<u>\$8,482,801</u>	<u>\$3,893,938</u>	<u>\$ -</u>	<u>\$12,376,739</u>

*Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$16,262
Judicial	29,789
Security of Person and Places	311,273
Leisure Time Activities	91,477
Transportation	528,821
Community Environment	<u>6,717</u>
Total Depreciation Expense	<u>\$ 984,339</u>

NOTE 9 -- COMPENSATED ABSENCES

The City accrues unpaid vacation as it is earned and certain portions of sick leave pay becomes vested and payment become 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 one half total sick leave accumulated to a maximum of 180 days (ninety days). EMT employees accumulate at the same rates but accumulate up to 720 hours. 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 the rate of 1 1/4 days of sick leave for each completed month. Upon retirement or resignation with fifteen minimum years of service receive two-thirds of sick leave accumulated not to exceed 180 days.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

Individuals leaving the employment of the City prior to retirement or at retirement lose their accumulated sick leave. At December 31, 2003, 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 \$837,608. 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 \$181,078 has been recognized. Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	OPEIU, Non-Union & Dispatchers Credit	Employee Service	AFSCME Credit
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
After 17 years	20 days	After 20 years	21 days

<u>Employee Service</u>	Fire Credit	Employee Service	Police Credit
1 to 6 years	5 days	1 to 4 years	10 days
After 7 years	6 days	After 5 years	11 days
After 8-14 years	8 days	After 6 years	12 days
After 15-20 years	10 days	After 7 years	13 days
After 21 years	11 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 17-19 years	20 days
		Over 20 years	21 days

Vacation leave must be used within the current calendar year unless the employee is unable to use his vacation due to the operational needs of the Employer. Without this, such excess leave is eliminated from the employee's leave balance. 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
FOR THE YEAR ENDED DECEMBER 31, 2003

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

	Principal Outstanding <u>12/31/02</u>	<u>Additions</u>	<u>Retirements</u>	Principal Balance <u>12/31/03</u>	Amounts Due in <u>One Year</u>
<u>Governmental Activities:</u>					
<u>Special Assessment Anticipation Notes:</u>					
Sanitary Sewer Improvement Notes, 7/8/99, 3.95%	\$1,000,000	\$ 900,000	\$1,000,000	\$900,000	\$900,000
<u>Special Assessment Bonds Payable with Government Commitment:</u>					
Miami Street Storm Water Drainage Improvement Bonds 6/24/98, 4.04%	580,000	-	25,000	555,000	25,000
Streetscape Special Assessment Bonds, 9.25% Issued 1988	17,000	-	17,000	-	-
Post-Closure Landfill	1,555,018	-	244,648	1,310,370	410,370
Compensated Absences Payable	<u>683,731</u>	<u>700,362</u>	<u>479,740</u>	<u>904,353</u>	<u>346,154</u>
Total Governmental Type Activities Debt	<u>\$3,835,749</u>	<u>\$1,120,622</u>	<u>\$1,286,648</u>	<u>\$3,669,723</u>	<u>\$1,681,524</u>
<u>Business-Type Activities:</u>					
G.O. Sanitary Improvement Note, 2%	4,000,000	3,000,000	4,000,000	3,000,000	3,000,000
Sewer Imp. Bonds, 4.748%	1,375,000	-	170,000	1,205,000	180,000
G. O. Sanitary Sewer Refunding Bonds, Series 1998	2,525,000	-	235,000	2,290,000	250,000
Compensated Absences Payable	<u>113,724</u>	<u>53,913</u>	<u>53,304</u>	<u>114,333</u>	<u>46,367</u>
Total Business-Type Debt	<u>\$8,013,724</u>	<u>\$3,000,609</u>	<u>\$4,405,000</u>	<u>\$6,609,333</u>	<u>\$3,476,367</u>

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.

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

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.

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.

Based on the requirements of the Financial Accounting Standards Board Statement Number 6, the short-term special assessment anticipation notes are recorded as long-term debt.

The annual requirements to amortize all bonded and loans outstanding as of December 31, 2003, including interest payments of \$1,000,965 are as follows:

<u>Year Ending December 31</u>	<u>General Obligation Debt</u>	<u>Special Assessment Bonds and Notes</u>
2004	\$3,641,310	\$971,770
2005	578,370	52,568
2006	579,497	56,442
2007	579,337	55,062
2008	578,055	53,652
2009-2013	1,256,484	278,378
2014-2018	-	<u>270,040</u>
Totals	7,213,053	1,737,912
Less Interest	<u>718,053</u>	<u>282,912</u>
Total Principal	<u>\$6,495,000</u>	<u>\$1,455,000</u>

NOTE 12 -- 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.

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 was 8.5 % for employees other than law enforcement. The 2003 employer contribution rate was 13.55% of covered payroll; The City's contributions for pension obligations to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$310,934, \$395,361, and \$320,322; respectively; 90.2% representing the paid contribution for 2003 and 100% for 2002 and 2001. \$30,601 representing the unpaid contribution for 2003, is recorded as an expenditure 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, 2003, 2002 and 2001 were \$735,569, \$710,044, and \$646,905, respectively, equal to the required contributions for the year. 76.2% has been contributed for 2003 and 100 percent for 2002 and 2001. \$175,145 representing the unpaid contribution for 2003, is recorded as an expenditure 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 Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002. 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. All investments are carried at market value. For

CITY OF TIFFIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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. The investment assumption rate for 2002 was 8.0%. 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 costs were assumed to increase 4.00% annually.

OPEBs are advance-funded on an actuarially determined basis. At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The city's contribution to fund postemployment benefits was \$114,735.

\$10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS covered-position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggest, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by OPERS from 2000 to 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

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 Postemployment 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.

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

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 2002 and 2003. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2002, the date of the last actuarial valuation available, are 13,527 for police and 10,396 for firefighters.

The amount that the city contributed as the employer's share to pay postemployment benefits for 2003, was \$260,531.

The Fund's total health care expenses for the year ending December 31, 2002, the date of the last actuarial valuation was \$141,028,006, which was net of member contributions of \$12,623,875.

NOTE 13 -- SEGMENT INFORMATION - ENTERPRISE FUNDS

The City operates one enterprise fund which provide disposal and treatment of sewage services. The key financial information for the year ended December 31, 2003 for this enterprise activity is as follows:

	<u>Sewer Fund</u>
Operating Revenue	\$2,799,021
Operating Expenses less Depreciation	\$1,947,032
Depreciation	\$ 450,613
Operating Income	\$401,376
Change in Net Assets	\$520,936
Capital Assets	\$12,376,739
Asset Additions	\$4,344,555
Total Assets	\$16,012,143
Bonds and Note Debt	\$6,495,000
Net Working Capital	\$(556,304)
Total Net Assets	\$8,755,435

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.

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

C. Federal and State Grants

The City participates in several federally assisted programs. These programs are subject to financial and compliance audits by the grantor or their representative. As of December 31, 2003, the audits of certain of these programs have not been completed. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

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CITY OF TIFFIN
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2003

<u>Federal Grantor/Program Title</u>	<u>Pass-Through Entity Number</u>	<u>CFDA Number</u>	<u>Receipts Recognized</u>	<u>Program Expenditures</u>
<i><u>U.S. Department of Housing and Urban Development</u></i>				
Pass through Ohio Department of Development				
Community Development Block Grant	A-F-02-183-1	14.228	\$ 194,000	\$ 160,335
Total Community Development Block Grant			<u>194,000</u>	<u>160,335</u>
CHIP Grant - CDBG	A-C-01-183-1	14.228	<u>82,991</u>	<u>58,397</u>
Total CHIP Grant - CDBG			82,991	58,397
CHIP Grant - HOME	A-C-01-183-2	14.239	<u>162,172</u>	<u>180,662</u>
Total CHIP Grant - HOME			<u>162,172</u>	<u>180,662</u>
Total U.S. Department of Housing and Urban Development			\$ 439,163	\$ 399,394
<i><u>Bureau of Justice Assistance</u></i>				
Bullet Proof Vest Grant	n/a	16.607	\$ 3,794	\$ 3,794
Total Bureau of Justice Assistance			<u>3,794</u>	<u>3,794</u>
Total Federal Awards Expenditures			<u>\$ 442,957</u>	<u>\$ 403,188</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

CITY OF TIFFIN
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2003

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of City Council
City of Tiffin
Tiffin, Ohio

We have audited the basic financial statements of the City of Tiffin, Ohio as of and for the year ended December 31, 2003 and have issued our report thereon dated July 22, 2004 wherein we noted the City adopted Governmental Accounting Standards Board Statements Nos. 34, 37, 38 and GASB Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated July 22, 2004.

This report is intended for the information and use of management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
July 22, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Members of City Council
City of Tiffin
Tiffin, Ohio

Compliance

We have audited the compliance of the City of Tiffin with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
July 22, 2004

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**CITY OF TIFFIN
SENECA COUNTY
December 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	CDBG #14.228
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

CITY OF TIFFIN
SENECA COUNTY
December 31, 2003

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of December 31, 2002, included no material citations or recommendations.



**Auditor of State
Betty Montgomery**

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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
NOVEMBER 4, 2004**