

***CITY OF TIFFIN
SENECA COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2004

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



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Report of Independent Accountants* of the City of Tiffin, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 through December 31, 2004. 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, 2005

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CITY OF TIFFIN, OHIO
AUDIT REPORT
For the Year Ended December 31, 2004

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Tiffin
Seneca County
Tiffin, Ohio 44883-0455

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tiffin, Seneca County, Ohio (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type, each major fund, and the aggregate remaining fund information of the City of Tiffin, Seneca County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis on pages 2 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Charles E. Harris & Associates, Inc.
August 31, 2005

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2004

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, 2004. 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 2004 are as follows:

- ❑ The City cut expenses by 10% in all departments that stopped the General Fund declining balances. The result was that a number of services that had been supplied by the City of Tiffin were removed.
- ❑ The General Fund equity in pooled cash and cash equivalents rose by \$0.4 million to \$0.8 million.
- ❑ The General Fund revenue in 2004 stopped declining and was nominally greater than 2003.
- ❑ In November 2004 the voters approved a reallocation of the income tax allowing an additional 11.5% to be used for general expenditures. This allowed the City of Tiffin to restore in 2005 most of the cuts to the various departments.
- ❑ The Capital Improvement Fund was able to reduce its sewer development note by \$0.3 million.

Using this Annual Financial Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column. In the case of the City of Tiffin, the General and Capital Improvement Funds are by far the most significant funds.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in those assets. This change in net assets is important because it tell the reader that, for the City as a whole, the *financial position* of the City has diminished. The cause of this is the result of many factors, some the City can control, some not. Non-controllable financial factors include the City's insurance costs, workers compensation costs, the economy, interest rates, and revenues or expenses determined by laws in Ohio restricting revenue growth, required programs and other factors.

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Unaudited

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

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

Reporting the City's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the General Fund and the Capital Improvement 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 2004 compared to 2003:

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Unaudited

Table 1
 Net Assets
 (In Millions)

	Governmental Activities 2004	Business-Type Activities 2004	Total 2004	Total 2003
Asset				
Current and Other Assets	\$ 8.8	\$ 2.8	\$ 11.6	\$ 13.3
Capital Assets	19.2	13.0	32.2	31.3
Total Assets	\$ 28.0	\$ 15.8	\$ 43.8	\$ 44.6
Liabilities				
Long-term Liabilities	\$ 3.2	\$ 5.7	\$ 8.9	\$ 10.3
Other Liabilities	1.9	0.1	2.0	2.5
Total Liabilities	5.1	5.8	10.9	12.8
Net Assets				
Invested in Capital Assets Net of Debt	18.1	7.4	25.5	24.0
Restricted	0.7	-	0.7	1.1
Unrestricted (Deficit)	4.1	2.6	6.7	6.4
Total Net Assets	\$ 22.9	\$ 10.0	\$ 32.9	\$ 31.5

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Unaudited

Table 2
 Changes in Net Assets
 (In Millions)

	Governmental Activities 2004	Business-Type Activities 2004	Total 2004	Total 2003
Revenue				
Program Revenues:				
Charges for Services	\$ 0.5	\$ 2.9	\$ 3.4	\$ 3.3
Operating Grants	1.0	-	1.0	0.6
Capital Grants	-	-	-	0.9
General Revenue:				
Municipal Income Tax	6.7	-	6.7	6.7
Property Taxes	0.8	-	0.8	0.9
Grants and Entitlements	1.0	-	1.0	1.0
Other	1.1	-	1.1	1.3
Total Revenues	11.1	2.9	14.0	14.7
Program Expenses				
General Government – Legislative and Executive	1.5	-	1.5	1.4
General Government – Judicial	0.5	-	0.5	0.5
Security of Persons and Property	6.1	-	6.1	6.6
Transportation	1.9	-	1.9	1.5
Public Health and Welfare	0.1	-	0.1	0.2
Economic Development and Assistance	0.1	-	0.1	0.1
Urban Redevelopment and Housing	0.3	-	0.3	0.2
Community Environment	-	-	-	0.5
Leisure Time Activities	0.4	-	0.4	0.5
Interest and Fiscal Charges	-	-	-	0.1
Sewer Districts	-	2.3	2.3	2.6
Total Expenses	10.9	2.3	13.2	14.2
Increase (Decrease) in Net Assets	\$ 0.2	\$ 0.6	\$ 0.8	\$ 0.5

Governmental Activities

To assure no deficit would occur by the end of 2004, management reduced about \$1.3 million from the 2004 budget. These reductions included:

- Reduced staff hours by 10% in the administrative and finance departments.
- Reduced the number employees in the police department by six and reduced clerk hours by 12.5%.
- Eliminated the part-time EMT's and four fire/rescue personal in the fire department.

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Unaudited

- ❑ Moved development funding from the General Fund.
- ❑ Removed all Capital purchases from the General Fund.
- ❑ Reduced the engineering staff by one employee.
- ❑ Paid two municipal court employees using court funds.
- ❑ Reduced park funding by \$0.15 million.
- ❑ Reduced street department funding by \$0.2 million.

In November 2004 the citizens allowed for more flexible spending of the income tax. This allowed some of the 2004 reductions to be restored in 2005. All employees whose hours had been reduced were stored. The court's employees were totally funded by the General Fund. Four positions were restored in the police department and two were restored in the fire department. Employees were not given any raise increase for 2005. The street department had 1% of the income tax restored and parks were given 4% of the income tax.

The City's largest source of governmental funding is the 1.75% income tax. In 2004 it provided 70.1% of the General Fund revenues. As determined by voters 10.0% of the income tax must be spent on capital projects. In 2004 there was a decline of 0.1% in the income tax.

General Government Security comprises 73.9 percent of governmental program expenses. General Government Legislative and Executive comprise an additional 20.1 percent of governmental program expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
 Governmental Activities
 (In Millions)

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Net Cost of Services <u>2003</u>
General Government – Legislative and Executive	1.5	\$ 1.6	\$ 1.4
General Government – Judicial	0.5	0.4	0.5
Security of Persons and Property	6.1	5.5	6.3
Transportation	1.9	1.1	0.8
Public Health and Welfare	0.1	0.1	0.2
Economic Development and Assistance	0.1	0.1	0.5
Urban Redevelopment and Housing	0.3	0.3	0.5
Community Environment	-	-	0.1
Leisure Time Activities	0.4	0.4	(0.5)
Interest and Fiscal Charges	-	-	0.1
Total Expenses	<u>\$ 10.9</u>	<u>\$ 9.5</u>	<u>\$ 9.9</u>

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Unaudited

The dependence upon tax revenues for governmental activities is apparent. Over 57 percent of public safety and other human services are supported through taxes and other general revenues. The community, as a whole, is by far the primary support for the City.

Business-Type Activities

Business-type activities include the sewer fund. This program had revenues of \$2.9 million and expenses of \$3.3 million for the year 2004. As discussed earlier, management has reviewed this program and fees were increased 3 percent in May 2004. Business activities receive no support from tax revenues.

The City's Funds

The City's major funds are the general fund and the Capital Improvement Fund. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11.5 million and expenditures of \$12.3 million.

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 2004 the City amended its General Fund budget numerous times. None of the amendments were significant. The City uses department based budgeting and the budgeting systems are designed to tightly control total department budgets but provide flexibility for site management.

The General Fund actual revenue was \$9.4 million, which met the original budget estimate of \$9.4 million. However, municipal income tax was down \$.1 million but other revenue, such as, property tax, State Local Government Fund revenues, interest income, and estate taxes made up for this shortage to balance out the budgeted revenue.

The City's 2004 ending unobligated General Fund cash balance was \$.66 million above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2004 the City had \$32.1 million invested in land, buildings, equipment, vehicles, and infrastructure; of which \$19.1 million was in governmental activities. Table 4 shows the 2004 balances.

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Unaudited

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

	Governmental Activities 2004	Business-Type Activities 2004	Total 2004	Total 2003
Land	\$ 3.2	\$ 0.2	\$ 3.4	\$ 3.4
Buildings and Improvements	2.5	2.6	5.1	5.4
Equipment & Machinery	0.8	0.2	1.0	1.0
Furniture & Fixtures	0.1	0.1	0.2	0.1
Vehicles	1.3	0.3	1.6	1.8
Infrastructure	11.2	9.6	20.8	19.5
Totals	<u>\$ 19.1</u>	<u>\$ 13.0</u>	<u>\$ 32.1</u>	<u>\$ 31.2</u>

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

Debt

As of December 31, 2004 the City had \$6.7 million in bonds and notes outstanding, \$3.6 million due within one year. Table 5 summarizes bonds and notes outstanding.

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

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003
General Obligation Bonds:				
Improvement	\$ 0.5	\$ 0.6	\$ 3.1	\$ 3.5
Notes Payable				
Sanitary Sewer Improvement	0.6	0.9	2.5	3.0
Total	<u>\$ 1.1</u>	<u>\$ 1.5</u>	<u>\$ 5.6</u>	<u>\$ 6.5</u>

At December 31, 2004, the City's overall legal debt margin was \$26.7million with an unvoted debt margin of \$13.7 million. The City maintains an A3 bond rating.

City of Tiffin
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Unaudited

For the Future

The City is presently financially stable. As the preceding information shows, the City heavily depends on its municipal income tax. With the requirement that 10.0% of this tax be used for capital purchases, the City has gained flexibility to operate its General Fund prudently. It will need to operate below the pre-2004 level but can provide basic services again to its citizens. Capital funding has been cut to one-half of previous levels, which will have a greater impact in 2006 and beyond. Any essential capital expenditure can still be funded using the General Fund.

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

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information contact Larry W. Clausung, 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, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 3,425,955	\$ 1,913,805	\$ 5,339,760
Cash and Cash Equivalents:			
In Segregated Accounts	310	-	310
Receivables:			
Taxes	2,677,520	-	2,677,520
Accounts	249,945	765,295	1,015,240
Special Assessments	876,959	-	876,959
Accrued Interest	12,279	8,232	20,511
Intergovernmental	1,169,000	-	1,169,000
Prepaid Items	109,394	17,405	126,799
Material and Supplies Inventory	76,749	8,029	84,778
Notes Receivable	206,801	-	206,801
Unamortized Bond Issue Costs	-	60,969	60,969
Capital assets, No Depreciation	3,188,030	241,940	3,429,970
Capital assets, Net of Depreciation	16,003,939	12,749,955	28,753,894
	<u>\$ 27,996,881</u>	<u>\$ 15,765,630</u>	<u>\$ 43,762,511</u>
Total Assets	<u>\$ 27,996,881</u>	<u>\$ 15,765,630</u>	<u>\$ 43,762,511</u>
<u>Liabilities:</u>			
Accounts Payable	\$ 139,569	\$ 4,972	\$ 144,541
Accrued Wages	215,694	32,605	248,299
Due to Other Governments	441,957	41,139	483,096
Deferred Revenue	1,051,076	-	1,051,076
Accrued Interest Payable	5,084	14,959	20,043
Long-Term Liabilities			
Due within one year	1,114,959	3,002,615	4,117,574
Due in more than one year	2,104,510	2,689,049	4,793,559
	<u>5,072,849</u>	<u>5,785,339</u>	<u>10,858,188</u>
Total Liabilities	<u>5,072,849</u>	<u>5,785,339</u>	<u>10,858,188</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	18,061,969	7,426,895	25,488,864
Restricted for:			
Capital Projects	25,000	-	25,000
Other Purposes	733,109	-	733,109
Unrestricted (Deficit)	4,103,954	2,553,396	6,657,350
	<u>22,924,032</u>	<u>9,980,291</u>	<u>32,904,323</u>
Total Net Assets	<u>\$ 22,924,032</u>	<u>\$ 9,980,291</u>	<u>\$ 32,904,323</u>

See accompanying notes to the basis financial statements.

Statement of Activities
For the Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary government:						
Governmental Activities:						
General Government:						
Legislative and Executive	\$ (1,535,523)	\$ -	\$ -	\$ (1,535,523)		\$ (1,535,523)
Judicial	(512,233)	-	109,502	(402,731)		(402,731)
Security of Persons and Property	(6,060,091)	361,509	182,600	(5,515,982)		(5,515,982)
Public Health and Welfare	(62,626)	-	-	(62,626)		(62,626)
Transportation	(1,850,364)	61,747	743,156	(1,045,461)		(1,045,461)
Community Environment	(29,951)	-	-	(29,951)		(29,951)
Basic Utility Services	(3,959)	-	-	(3,959)		(3,959)
Leisure Time Activities	(405,700)	36,427	-	(369,273)		(369,273)
Economic Development and Assistance	(130,862)	-	-	(130,862)		(130,862)
Urban Redevelopment and Housing	(333,122)	-	-	(333,122)		(333,122)
Economic Opportunity	(2,000)	-	-	(2,000)		(2,000)
Interest and Fiscal Charges	(39,569)	-	-	(39,569)		(39,569)
Total Governmental Activities	<u>(10,966,000)</u>	<u>459,683</u>	<u>1,035,258</u>	<u>(9,471,059)</u>		<u>(9,471,059)</u>
Business-Type Activities:						
Sewer	<u>(2,313,003)</u>	<u>2,930,826</u>	<u>-</u>	<u>-</u>	<u>\$ 617,823</u>	<u>617,823</u>
Total Business-Type Activities	<u>(2,313,003)</u>	<u>2,930,826</u>	<u>-</u>	<u>-</u>	<u>617,823</u>	<u>617,823</u>
Total primary government	<u>\$ (13,279,003)</u>	<u>\$ 3,390,509</u>	<u>\$ 1,035,258</u>	<u>(9,471,059)</u>	<u>617,823</u>	<u>(8,853,236)</u>
General revenues:						
Taxes:						
Municipal Income Tax				6,740,419	-	6,740,419
Property Taxes, levied for General Purposes				840,927	-	840,927
Special Assessments				102,213	-	102,213
Grants and contributions not restricted to specific programs				998,674	-	998,674
Unrestricted investment earnings				64,500	37,100	101,600
Miscellaneous				918,115	-	918,115
Total General Revenues				<u>9,664,848</u>	<u>37,100</u>	<u>9,701,948</u>
Change in Net Assets				193,789	654,923	848,712
Net Assets - January 1, 2004 - Restated, See Note 15				<u>22,730,243</u>	<u>9,325,368</u>	<u>32,055,611</u>
Net Assets - December 31, 2004				<u>\$ 22,924,032</u>	<u>\$ 9,980,291</u>	<u>\$ 32,904,323</u>

See accompanying notes to the basic financial statements.

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds	Total Governmental Fund Balances	
						\$ 4,131,856
					<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Assets and Other Debits						
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$ 759,801	\$ 769,026	\$ 1,897,128	\$ 3,425,955	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,191,969
Cash and Cash Equivalents:					Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
In Segregated Accounts	310	-	-	310		
Receivables:						
Taxes	2,513,148	-	164,372	2,677,520	Municipal Income Taxes	\$ 942,251
Accounts	230,432	-	19,513	249,945	Delinquent Property Taxes	65,146
Special Assessments	-	-	876,959	876,959	Special Assessments	876,959
Accrued Interest	11,194	-	1,085	12,279	Grants	930,632
Due from Other Governments	529,184	-	639,816	1,169,000	Accrued Interest Receivable	9,772
Prepaid Items	64,604	-	44,790	109,394		2,824,760
Material and Supplies Inventory	8,503	-	68,246	76,749		
Notes Receivable	-	-	206,801	206,801	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.	
Total Assets	<u>\$ 4,117,176</u>	<u>\$ 769,026</u>	<u>\$ 3,918,710</u>	<u>\$ 8,804,912</u>		
Liabilities:						
Accounts Payable	\$ 95,347	\$ 16,993	\$ 27,229	\$ 139,569	Accrued Interest Payable	\$ (5,084)
Accrued Wages	185,113	-	30,581	215,694	Compensated Absences Payable	(951,958)
Due to Other Governments	404,067	-	37,890	441,957	Post Closure Landfill Payable	(1,137,511)
Deferred Revenue	2,248,930	-	1,618,035	3,866,965	Special Assessment Bonds Payable	(530,000)
Payroll Withholdings	8,871	-	-	8,871	Sanitary Improvement Note Payable	(600,000)
Total Liabilities	<u>2,942,328</u>	<u>16,993</u>	<u>1,713,735</u>	<u>4,673,056</u>	Net Assets of Governmental Activities	<u>\$ 22,924,032</u>
Fund Balances:						
Reserved for Capital Improvement	-	-	25,000	25,000		
Reserved for Notes Receivable	-	-	206,801	206,801		
Reserved for Encumbrances	202,305	178,601	68,653	449,559		
Reserved for Inventory	8,503	-	68,246	76,749		
Unreserved, Undesignated, Reported in:						
General Fund	964,040	-	-	964,040		
Special Revenue Funds	-	-	1,293,915	1,293,915		
Debt Service Fund	-	-	68,294	68,294		
Capital Projects Funds	-	573,432	466,024	1,039,456		
Permanent Funds	-	-	8,042	8,042		
Total Fund Balances	<u>1,174,848</u>	<u>752,033</u>	<u>2,204,975</u>	<u>4,131,856</u>		
Total Liabilities and Fund Balances	<u>\$ 4,117,176</u>	<u>\$ 769,026</u>	<u>\$ 3,918,710</u>	<u>\$ 8,804,912</u>		

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, 2004

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

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds	Net Change in Fund Balances-Total Governmental Funds	
					\$	(190,081)
					Amounts reported in governmental activities in the statement of activities are different because:	
Revenues:					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.	
Municipal Income Tax	\$ 6,767,056	\$ -	\$ -	\$ 6,767,056	Capital Outlay	\$ 1,324,251
Property and Other Taxes	843,391	-	137,690	981,081	Depreciation	(1,077,078)
Intergovernmental	998,334	-	1,241,003	2,239,337		247,173
Investment Income	48,732	-	13,972	62,704		
Licenses and Permits	28,214	-	-	28,214		
Fines and Forfeitures	328,096	-	125,591	453,687		
Special Assessments	-	-	102,213	102,213		
Charges for Services	333,295	-	36,427	369,722		
Miscellaneous	294,234	3,588	166,606	464,428		
Total Revenue	9,641,352	3,588	1,823,502	11,468,442		
Expenditures:						
Current:						
General Government:						
Legislative and Executive	-	90,428	1,308	91,736		
Judicial	-	6,260	143,759	150,019		
Security of Persons and Property	-	123,918	161,611	285,529		
Public Health and Welfare	1,517,311	-	5,096	1,522,407		
Transportation	352,166	875,885	1,140,642	2,368,693		
Community Environment	5,574,294	-	184,608	5,758,902		
Basic Utility Services	57,530	-	3,959	61,489		
Leisure Time Activities	10,000	54,832	332,226	397,058		
Economic Development	17,637	-	121,214	138,851		
Urban Redevelopment & Housing	-	-	333,122	333,122		
Economic Opportunity	-	-	2,000	2,000		
Other	9,648	-	-	9,648		
Debt Service:						
Principal Retirement	-	172,859	925,000	1,097,859		
Interest and Fiscal Charges	-	-	41,210	41,210		
Total Expenditures	7,538,586	1,324,182	3,395,755	12,258,523		
Excess of Revenues Over (Under) Expenditures	2,102,766	(1,320,594)	(1,572,253)	(790,081)		
Other Financing Sources (Uses):						
Proceeds of Notes	-	-	600,000	600,000		
Transfers In	-	1,435,051	801,425	2,236,476		
Transfers Out	(1,635,291)	(580,000)	(21,185)	(2,236,476)		
Total Other Financing Sources (Uses)	(1,635,291)	855,051	1,380,240	600,000		
Net Change in Fund Balance	467,475	(465,543)	(192,013)	(190,081)		
Fund Balances (Deficit) at Beginning of Year	710,460	1,217,576	2,371,466	4,299,502		
Increase (Decrease) in Reserve for Inventory	(3,087)	-	25,522	22,435		
Fund Balances (Deficits) End of Year	\$ 1,174,848	\$ 752,033	\$ 2,204,975	\$ 4,131,856		
						Change in Net Assets of Governmental Activities
						\$ 193,789

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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal Income Taxes	\$ 6,850,000	\$ 6,800,000	\$ 6,674,657	\$ (125,343)
Property Taxes	833,000	833,000	841,844	8,844
Intergovernmental	945,770	995,770	998,517	2,747
Investment Income	40,000	40,000	49,275	9,275
Fines and Forfeitures	333,000	310,000	303,988	(6,012)
Licenses and Permits	26,700	26,700	28,354	1,654
Charges for Services	282,400	282,400	330,732	48,332
Other	129,600	133,100	175,430	42,330
Total Revenue	9,440,470	9,420,970	9,402,797	(18,173)
Expenditures:				
Current:				
General Government:				
Legislative and Executive	1,722,473	1,861,797	1,495,519	366,278
Judicial	397,695	397,695	347,032	50,663
Security of Persons and Property	6,024,164	5,729,826	5,718,186	11,640
Public Health and Welfare	61,841	61,991	57,530	4,461
Transportation	10,000	11,322	10,110	1,212
Community Environment	24,710	214,353	16,350	198,003
Economic Development	60,100	10,862	9,648	1,214
Total Expenditures	8,300,983	8,287,846	7,654,375	633,471
Excess of Revenues Over (Under) Expenditures	1,139,487	1,133,124	1,748,422	615,298
Other Financing Sources (Uses):				
Transfers Out	(1,678,250)	(1,678,250)	(1,635,291)	42,959
Total Other Financing Sources (Uses)	(1,678,250)	(1,678,250)	(1,635,291)	42,959
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(538,763)	(545,126)	113,131	658,257
Fund Balances (Deficit) at				
Beginning of Year	163,286	163,286	163,286	-
Prior Year Encumbrances Appropriated	256,041	256,041	256,041	-
Fund Balances (Deficit) at End of Year	\$ (119,436)	\$ (125,799)	\$ 532,458	\$ 658,257

City of Tiffin

Statement of Net Assets
 Proprietary Funds
 December 31, 2004

	Business Type Activities- Enterprise Fund
	<u>Sewer</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 1,913,805
Receivables:	
Accounts	765,295
Accrued Interest	8,232
Prepaid Items	17,405
Material and Supplies Inventory	8,029
Unamortized Bond Issue Costs	<u>60,969</u>
Total Current Assets	2,773,735
Capital Assets, (No Depreciation)	241,940
Capital Assets, (Net of Accumulated Depreciation)	<u>12,749,955</u>
Total Assets	<u><u>\$ 15,765,630</u></u>
<u>Liabilities:</u>	
Accounts Payable	4,972
Accrued Wages	32,605
Compensated Absences Payable	126,664
Due to Other Governments	41,139
Accrued Interest Payable	14,959
Notes Payable	<u>2,945,000</u>
Total Current Liabilities	3,165,339
<u>Long-Term Liabilities:</u>	
General Obligation Bonds Payable	<u>2,620,000</u>
Total Long-Term Liabilities	2,620,000
Total Liabilities	5,785,339
<u>Net Assets:</u>	
Invested in capital assets, net of related debt	7,426,895
Unrestricted	<u>2,553,396</u>
Total Net Assets	<u><u>\$ 9,980,291</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, 2004

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Sewer</u>
Operating Revenues:	
Charges for Services	\$ 2,919,317
Other Operating Revenues	<u>10,654</u>
Total Operating Revenues	<u>2,929,971</u>
Operating Expenses:	
Personal Services	1,104,049
Contractual Services	358,806
Materials and Supplies	109,570
Other Operating Expense	4,851
Depreciation	<u>528,617</u>
Total Operating Expenses	<u>2,105,893</u>
Operating Income (Loss)	824,078
Non-Operating Revenues (Expenses):	
Tap-In Fees	855
Interest Income	37,100
Interest and Fiscal Charges	<u>(207,110)</u>
Total Non-Operating Revenues (Expenses)	<u>(169,155)</u>
Change in Net Assets	654,923
Total Net Assets at Beginning of Year - Restated See Note 15	<u>9,325,368</u>
Total Net Assets at End of Year	<u><u>\$ 9,980,291</u></u>

See accompanying notes to the basic financial statements.

City of Tiffin
Statement of Revenues, Expenses, and Changes in fund Net Assets
Proprietary Fund
For the Year Ended December 31, 2004

	Business Type Activities- Enterprise Fund
	<u>Sewer</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received for Services	\$ 2,829,165
Cash Received from Other Operating Sources	10,814
Cash Payments to Suppliers for Goods and Services	(456,106)
Cash Payments to Employees for Services	<u>(1,068,236)</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,315,637</u>
Cash Flows from Noncapital Financing Activities:	
Tap-In Fees	<u>855</u>
Net Cash Provided by Noncapital Financing Activities	<u>855</u>
Cash Flows from Capital & Related Financing Activities:	
Proceeds from Notes	2,500,000
Principal Payments	(3,430,000)
Payments for Capital Acquisitions	(1,143,773)
Interest Paid	<u>(209,927)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(2,283,700)</u>
Cash flows from Investing Activities:	
Interest on Investments	<u>36,401</u>
Net Cash Provided by Investing Activities:	<u>36,401</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(930,807)
Cash and Cash Equivalents Beginning of Year	<u>2,844,612</u>
Cash and Cash Equivalents End of Year	<u>\$ 1,913,805</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities	
Operating Income (Loss)	824,078
Adjustments:	
Net Cash from Operating Activities:	
Depreciation Expense	528,617
(Increase) Decrease in Assets:	
Accounts Receivable	(89,992)
Prepaid Items	5,774
Materials and Supplies Inventory	8,157
Increase (Decrease) in Liabilities:	
Accounts Payable	(566,744)
Accrued Wages and Benefits	10,562
Compensated Absences Payable	12,331
Due to Other Governments	12,920
Fixed Assets Purchased through Accounts Payable	<u>569,934</u>
Total Adjustments	<u>491,559</u>
Net Cash Provided by Operating Activities	<u>\$ 1,315,637</u>

See accompanying notes to the basic financial statements.

City of Tiffin

Statement of Fiduciary Net Assets
Fiduciary Funds

December 31, 2004

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,828
Cash and Cash Equivalents: In Segregated Accounts	101,599
Accounts Receivable	<u>1,239</u>
Total Assets	<u><u>\$ 105,666</u></u>
 <u>Liabilities:</u>	
Undistributed Monies	<u>\$ 105,666</u>
Total Liabilities	<u><u>\$ 105,666</u></u>

See accompanying notes to the basic financial statements.

**CITY OF TIFFIN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1 -- DESCRIPTION OF THE ENTITY AND REPORTING ENTITY

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

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

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

The City has not included the City of Tiffin School District, the Tiffin-Seneca Public Library, the Conner Memorial Commission, and the Weller Memorial Commission as it has no control over these operations and is 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 FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except the fiduciary funds. The statements distinguish between those activities of the city that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

During the year, the City segregates transactions related to certain City programs or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at a more detail level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. FUND ACCOUNTING

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

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The City's major governmental funds are the general and capital improvement funds:

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

Capital Improvement Fund – The capital improvement fund is used to account financial resources for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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 FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

Proprietary Funds

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

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

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

Fiduciary Funds

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

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 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 FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

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, 2004, but which were levied to finance 2005 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. 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.

CITY OF TIFFIN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

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 the City Manager, Finance Director and respective department head. Council must approve any revisions in the budget that alter total fund appropriations. The following are the procedures used by the City in establishing the budgetary date reported in the basic 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 2004.

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. Council legally enacted several supplemental appropriation ordinances during the year. The budget figures which appear in the statement of budgetary comparisons present the original and final appropriation amounts including all amendments and modifications.

Encumbrances:

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

Lapsing of Appropriations:

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

CITY OF TIFFIN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004

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 2004, investments were limited to repurchase agreements.

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during year 2004 amounted to \$48,732.

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.

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

I. CAPITAL ASSETS

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$500. Public domain ("infrastructure") general capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been capitalized under new requirements of

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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.

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.

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on

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

M. FUND BALANCE RESERVES

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

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 on the financial statements.

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(continued)

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 2004.

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.

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>	
<u>Budget Basis</u>	\$ 113,131
Adjustments:	
Revenue Accruals	41,905
Expenditure Accruals	84,787
Encumbrances	227,652
 <u>GAAP Basis</u>	 \$ 467,475

NOTE 4 -- DEPOSITS AND INVESTMENTS

Deposits

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

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

Inactive deposits are public deposits that the City has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must 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.

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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 \$3,054,187 and the bank balance was \$3,205,978. Of the bank balance:

1. \$400,000 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. \$2,805,978 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateralized pools securing all public fund 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.

	Category			Bank
	1	2	3	Balance
Certificates	\$ 3,019,215	\$ -	\$ -	\$ 3,019,215
Checking Accounts	75,081	-	-	75,081
Municipal Court	111,682	-	-	111,682
Totals	\$ 3,205,978	\$ -	\$ -	\$ 3,205,978

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.

		Carrying Amount	Fair Value
Bank Repurchase	Category C	\$ 2,390,000	\$ 2,390,000
Total Investments		\$ 2,390,000	\$ 2,390,000

The classification of cash and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of pooled cash and cash equivalents and investments on the Combined Balance Sheet and the classifications of deposits and investments presented above per GASB Statement No.3 is as follows:

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	Equity with City Treasurer	Investments
GASB Statement 9	\$ 5,444,497	\$ -
Bank Repurchase Agreement	(2,390,000)	2,390,000
Petty Cash Funds	(310)	-
Per GASB 3	\$ 3,054,187	\$ 2,390,000

NOTE 6 -- RECEIVABLES

Receivables at December 31, 2004, 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 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) is for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

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. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2004, was \$4.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	\$ 156,002,200
Commercial/Industrial	53,442,020
Public Utility Property - Real	26,060
Public Utility Tangible	16,462,930
Tangible Personal Property	34,076,010
Total Valuation	\$ 260,009,220

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.

CITY OF TIFFIN
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(Continued)

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, 2004 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 2004 operations. The receivable is therefore offset by deferred revenue.

Income Taxes

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

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

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

Intergovernmental Receivables

A summary of Intergovernmental Receivables follows:

Governmental Activities	Amounts
Local Governmental	\$ 535,530
Gasoline and Excise Tax	280,171
Motor Vehicle License Fees	84,333
Permissive Motor Vehicle License Tax	47,029
Liquor Licenses	1,422
Immobilization Fees	170
CHIP Grant	220,345
Total	\$ 1,169,000

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 2004, the City contracted through United Insurance Service and Sky Insurance of Tiffin for property, fleet, crime and liability insurance.

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<u>Coverage</u>	<u>Per Occurrence</u>	<u>Deductibles</u>	<u>Annual Aggregate</u>
Commercial Property (Blanket):			
Building and Contents - Replacement Cost			\$ 24,525,672
Workers Compensation	\$ 1,000,000		
General Liability	\$ 1,000,000		\$ 3,000,000
Products/Completed Ops			\$ 3,000,000
Personal and Advertising Injury	\$ 1,000,000		\$ 1,000,000
Fire Damage			\$ 100,000
Automobile-Comprehensive and Collision		\$500/1000 Deductibles	\$ 1,000,000
Medical Payments			\$ 5,000
Umbrella	\$ 5,000,000		\$ 5,000,000
Employee Benefits Liability	\$ 1,000,000		\$ 2,000,000

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

NOTE 8 -- CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004:

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
	<u>12/31/03</u>			<u>12/31/04</u>
Governmental Activities:				
Land	\$ 3,188,030	\$ -	\$ -	\$ 3,188,030
Buildings and Improvements	7,102,374	19,724	-	7,122,098
Machinery & Equipment	2,580,742	217,097	(52,919)	2,744,920
Furniture & Fixtures	283,996	24,721	(6,231)	302,486
Infrastructure	14,333,442	866,308	-	15,199,750
Vehicles	3,092,977	196,401	(245,729)	3,043,649
Total Capital Assets	\$ 30,581,561	\$ 1,324,251	\$ (304,879)	\$ 31,600,933
Less Accumulated Depreciation:				
Buildings and Improvements	\$ (4,493,398)	\$ (162,187)	\$ -	\$ (4,655,585)
Machinery & Equipment	(1,736,784)	(219,395)	52,919	(1,903,260)
Furniture & Fixtures	(184,107)	(23,828)	6,231	(201,704)
Infrastructure	(3,731,302)	(465,817)	245,729	(3,951,390)
Vehicles	(1,491,174)	(205,851)	-	(1,697,025)
Totals Accumulated Depreciation	(11,636,765)	(1,077,078)	304,879	(12,408,964)
Governmental Activities - Capital Assets, Net of Accum. Dep.	\$ 18,944,796	\$ 247,173	\$ -	\$ 19,191,969

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(Continued)

Business-Type Activities:

Land	\$ 241,940	\$ -	\$ -	\$ 241,940
Buildings	10,080,076	-	-	10,080,076
Equipment and Machinery	495,881	34,548	(24,867)	505,562
Furniture and Fixtures	57,389	-	-	57,389
Vehicles	724,990	137,681	(25,515)	837,156
Infrastructure	11,435,472	971,544	-	12,407,016
Total Capital Assets	<u>23,035,748</u>	<u>1,143,773</u>	<u>(50,382)</u>	<u>24,129,139</u>
Buildings	(7,302,523)	(136,589)	-	(7,439,112)
Equipment and Machinery	(326,528)	(53,719)	24,867	(355,380)
Furniture and Fixtures	(39,820)	(5,561)	-	(45,381)
Vehicles	(479,004)	(79,679)	25,515	(533,168)
Infrastructure	<u>(2,511,134)</u>	<u>(253,069)</u>	<u>-</u>	<u>(2,764,203)</u>
Total Accumulated Depreciation	<u>(10,659,009)</u>	<u>(528,617)</u>	<u>50,382</u>	<u>(11,137,244)</u>
Business-Type Activities - Capital Assets, Net of Accum. Dep.	<u>\$ 12,376,739</u>	<u>\$ 615,156</u>	<u>\$ -</u>	<u>\$ 12,991,895</u>

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

General Government:

Legislative and Executive	\$ 99,320
Judicial	29,078
Security of Person and Places	266,911
Leisure Time Activities	112,459
Transportation	563,805
Community Environment	<u>5,505</u>
Total Depreciation Expense	<u>\$ 1,077,078</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 2/3 of a maximum of 180 days (120 days). Sick leave accumulates for fire employees at the rate of 1 1/4 days of sick leave for each completed month. Upon retirement the fire employees receive 1/3 total hours accumulated not to exceed 1/3 of 2880 hours.

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

Individuals leaving the employment of the City prior to retirement or at retirement lose their accumulated sick leave. At December 31, 2004, 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 \$872,132. 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.

CITY OF TIFFIN
NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

A liability for accrued vacation for \$206,490 has been recognized. Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	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
Non-Union			
After 17-19 years	20 days	After 20 years	21 days
After 20 years	21 days		
Dispatchers			
After 17-20 years	20 days		
After 21 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 7-14 years	8 days	After 5 years	11 days
After 15-20 years	10 days	After 6 years	12 days
After 21 years	11 days	After 7 years	13 days
		After 8 years	14 days
		After 9-12 years	15 days
		After 13 years	16 days
		After 14 years	17 days
		After 15 years	18 days
		After 16 years	19 days
		After 17-20 years	20 days
		Over 21 years	21 days

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

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.

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(Continued)

NOTE 10 -- LONG TERM LIABILITIES

	Principal Outstanding 12/31/03	Additions	Retirements	Principal Balance 12/31/04	Amounts Due in One Year
<u>Governmental Activities:</u>					
<u>Special Assessment Anticipation Notes:</u>					
Sanitary Sewer Improvement Notes, 7/8/99, 3.95%	\$ 900,000	\$ 600,000	\$ 900,000	\$ 600,000	\$ 600,000
<u>Special Assessment Bonds Payable with Government Commitment:</u>					
Miami Street Storm Water Drainage Improvement Bonds 6/24/98, 4.04%	555,000	-	25,000	530,000	25,000
Post-Closure Landfill Compensated Absences Payable	1,310,370 904,353	- 420,491	172,859 372,886	1,137,511 951,958	100,000 389,959
Total Governmental Activities Debt	\$ 3,669,723	\$ 1,020,491	\$ 1,470,745	\$ 3,219,469	\$ 1,114,959
<u>Business-Type Activities:</u>					
G.O. Sanitary Improvement Note, 2%	\$ 3,000,000	\$ 2,500,000	\$ 3,000,000	\$ 2,500,000	\$ 2,500,000
Sewer Imp. Bonds, 4.748%	1,205,000	-	180,000	1,025,000	185,000
G. O. Sanitary Sewer Refunding Bonds, Series 1998	2,290,000	-	250,000	2,040,000	260,000
Compensated Absences Payable	114,333	64,462	52,131	126,664	57,615
Total Business-Type Debt	\$ 6,609,333	\$ 2,564,462	\$ 3,482,131	\$ 5,691,664	\$ 3,002,615

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

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

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

The annual requirements to amortize all bonded and loans outstanding as of December 31, 2004, including interest payments of \$742,885 are as follows:

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Year Ending December 31,	General Obligation Debt	Special Assessment Bonds and Notes
2005	\$ 578,370	\$ 52,568
2006	579,497	56,442
2007	579,337	55,062
2008	578,055	53,652
2009	575,630	57,212
2010-2014	680,854	274,046
2015-2018	-	217,160
Totals	3,571,743	766,142
Less Interest	506,743	236,142
Total Principal	\$ 3,065,000	\$ 530,000

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.

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004 member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan. The 2004 member contribution rates were 8.5%. The 2004 local government employer contribution rate was 13.55% of covered payroll. The City's contributions for pension obligations to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$359,735, \$310,934, and \$395,361; respectively; 92.0% representing the paid contribution for 2004 and 100% for 2003 and 2002. \$28,920 representing the unpaid contribution for 2004, is recorded as an expenditure to the individual funds that incurred the costs.

CITY OF TIFFIN
NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

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, 2004, 2003, and 2002 were \$703,865, \$735,569, and \$710,044, respectively, equal to the required contributions for the year. 76.0% has been contributed for 2004 and 100 percent for 2003 and 2002. \$168,802 representing the unpaid contribution for 2004 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 Post Employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer contribution rate for local government employers was 13.55% of covered payroll, and 4.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2003. 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 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 2003 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 at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

CITY OF TIFFIN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

OPEB are advance-funded on an actuarially determined basis. At year-end 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. The City's contribution to fund post employment benefits was \$106,195.

The amount of \$10.5 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2003. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

In September 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchased health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses

Ohio Police and Firemen's Disability and Pension Fund

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

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

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2003 and 2004. 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, 2003, the date of the last actuarial valuation available, is 13,662 for police and 10,474 for firefighters.

The amount that the city contributed as the employer's share to pay post employment benefits for 2004 was \$248,823.

The Fund's total health care expenses for the year ending December 31, 2003, the date of the last actuarial valuation was \$150,853,148, which was net of member contributions of \$17,207,506.

NOTE 13 -- SEGMENT INFORMATION - ENTERPRISE FUNDS

The City operates one enterprise fund, which provides disposal and treatment of sewage services. The key financial information for the year ended December 31, 2004 for this enterprise activity is as follows:

CITY OF TIFFIN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

	Sewer Fund
Operating Revenue	\$ 2,929,971
Operating Expenses less Depreciation	\$ 1,577,276
Depreciation	\$ 528,617
Operating Income	\$ 824,078
Capital Assets	\$ 12,991,895
Asset Additions	\$ 1,143,773
Total Assets	\$ 15,765,630
Bonds and Note Debt	\$ 5,565,000
Net Working Capital	\$ (391,604)
Total Net Assets	\$ 9,980,291

NOTE 15 -- 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 may be 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 city.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

In the prior year, \$569,933 of sewer fund infrastructure accounts payable was charged to contractual services when it should have been capitalized. This understated the Business Type Activities Net Assets by that amount. A prior year adjustment was made to restate the beginning net asset amount in the proprietary sewer fund:

December 31, 2003 Business Type Activity Net Assets	\$8,755,435
Sewer Fund Capital Assets	569,933
Restated Business Type Activity Net Assets, January 1, 2004:	\$9,325,368

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

**City of Tiffin
Seneca County
Tiffin, Ohio 44883-0455**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tiffin, Ohio as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Tiffin, Ohio's internal control over financial reporting in order to determine our auditing procedures in order to express our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements we audited may occur and not be detected within a timely period by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated August 31, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tiffin, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. However, we noted other immaterial matters involving compliance that we have included in a separate letter dated August 31, 2004.

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

Charles E. Harris and Associates, Inc.
August 31, 2005

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of December 31, 2003, did not include any 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
OCTOBER 20, 2005**